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## NEWS SUMMARY

### GENERAL

## Reagan 'willing' to meet Brezhnev

President Reagan indicated yesterday he might be willing to meet Soviet President Brezhnev in October.

Officials said, however, it was too early to say whether Mr Reagan would accept Mr Brezhnev's proposal last month for a full-scale summit in a neutral European country.

Mr Reagan has long said he would favour a summit provided it was "well-prepared" and this remains a U.S. precondition. Back Page

**Channel link talks**

Proposals for a fixed Channel link will be discussed by ministers this week following delivery of an Anglo-French government study.

**Card fraud move**

Beneficial Trust is to issue its bank account holders with cheque guarantee cards carrying a photograph to curb card frauds. Back Page

**Constable dies**

A detective constable involved in an incident at Manchester Airport last month died from his head injuries.

**Scouts found**

Four scouts missing on Snowdon were found "cuddled up in sleeping bags" by a rescue helicopter after a night of rain and 80 mph winds.

**Snow falls**

Six inches of snow fell in Co Durham, while Northumbrian police said they "lost count" of caravans blown over in high winds. Weather, Back Page

**Dispute decisions**

Possible disputes in the docks, railways and health service could be decided this week. Page 8

**Coup trial charge**

Col "Mad Mike" Hoare, leader of November's Seychelles coup attempt, said at his South African trial the Pretoria Government had supplied the weapons.

**425 held in Naples**

Naples police arrested 425 people in a 24-hour operation against gangsters, drug peddlers and common criminals.

**Riot deaths suit**

The Portuguese Cabinet said it planned to sue union leaders over the deaths of two workers in a May Day riot in Oporto. Strike called, Page 4

**Reactor halted**

France stopped indefinitely its nuclear research reactor at Marcoule in the south after reports of leaking sodium last week.

**Burials stopped**

Burials at Liverpool's four main cemeteries are stopped this week because of a council workers' strike due to start today.

**Briefly . . .**

Three skinheads were in hospital after Bank Holiday clashes in Southend.

Seventeen of 200 passengers were slightly hurt when a train hit buffers at Folkestone East station, Kent.

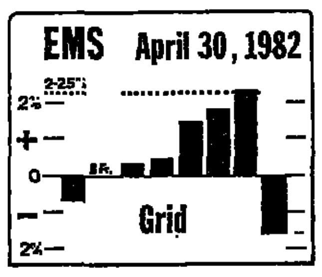
West Belfast police found three rifles and 500 rounds of ammunition in a school.

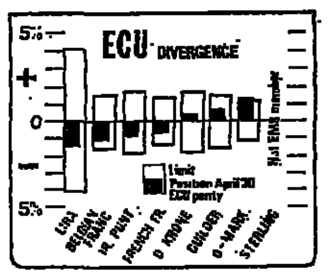
Italian pay strikes will disrupt transport this month, including Venetian water buses and domestic air flights.

### BUSINESS

## Exxon drops $5bn project

● EXXON, the U.S. oil company, is dropping its $5bn Colony oil shale project in Colorado. Back Page




*The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU) itself a basket of European currencies.*

● D-MARK was firm at the top of the European Monetary System last week, finishing above its divergence limit.

The Italian lira replaced the Belgian franc as the weakest member of the system, the French franc fairly steady in the middle of the EMS.

The Danish krone fell below the Dutch guilder, and the Dutch currency became the second strongest EMS member, although it eased on the D-mark, which was helped by a move out of the dollar as Euro-dollar interest rates fell. Page 8

● GOLD: In New York, the Comex May close was $345.4 ($342.70).

● WALL STREET was down 0.66 to 847.70 near the close. Page 24

● VW has started talks with Seat, the Spanish state-owned car company, with a view to making VW cars in Spain under licence. Back Page

● INTEREST RATES could be reduced when the Falklands crisis is resolved, as the unexpectedly low rate of public borrowing has recently eased the financial pressure on the Government. Back Page

● ENGINEERING employers could face claims for further reductions in working hours next year. Back Page

● FLEXIBLE AIR FARE structure for transatlantic routes was approved by the U.S. and 10 European nations. Page 4

● LLOYD'S BILL for improving the insurance market's self-regulation comes before a House of Lords select committee today. Page 6

● BRITISH AIRWAYS launched a £2m advertising campaign on TV intended to attract the business community to the airline. Page 7

● VOLKSWAGEN, West Germany's leading car maker, suffered a 58 per cent drop in after-tax profits last year to DM 136m (£32.49m). Its recent acquisition, the office equipment maker Triumph Adler, suffered a 150 per cent increase in losses to DM 197m on 18.5 per cent higher sales. Page 22

## CONTENTS



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# Government considers increasing force on junta over Falklands

BY PETER RIDDELL, POLITICAL EDITOR

● The UK Government said yesterday it believed military pressure on Argentina would have to be applied for some time longer. Ministers are more pessimistic about chances of an early diplomatic breakthrough.

● The Argentine cruiser General Belgrano was torpedoed just outside the 200 mile total exclusion zone during Monday night. Argentine chiefs of staff said it was "presumed sunk."

● Two Argentine patrol boats were attacked by task force helicopters. One was sunk and the other damaged.

● Mr Francis Pym, Britain's Foreign Secretary, returned from New York after talks with Sr Javier Perez de Cuellar, UN secretary general, and Mr Ling Qing of China, president of the UN Security Council. No new formula has emerged.

● The Spanish Government said Britain was committing "an historic mistake." Press reports gave prominence to Argentine versions of the fighting.

● In Latin America most criticism was reserved for the U.S. support of the British. The Soviet Union accused Britain of "the grossest disregard" for international law.

● In Argentina there have been no public appearances by national leaders for several days. There have been no major public rallies. BBC Spanish language broadcasts have been jammed.

● The 66,000 ton luxury Cunard liner QE 2 was requisitioned to carry an infantry brigade to the South Atlantic.

● Sterling continued to strengthen in quiet trading in New York

THE GOVERNMENT believes that military pressure on Argentina will have to be applied for some time longer, and possibly intensified, since Ministers have become even more pessimistic about the chances of a diplomatic breakthrough in the Falklands crisis.

The UK view, underlined by Mr Francis Pym, the Foreign Secretary, in New York yesterday, is that the immediate objective is to secure the 200-mile total exclusion zone around the islands, and that any military conflict will be as a result of an Argentine challenge.

Officials in London were last night trying to discourage speculation about an imminent large-scale invasion of the islands. But that would be the official view whatever was planned.

The British preference still appears a step-by-step approach. The next decision will be whether pressure should be maintained by limiting military activities over the next few days to protecting the total exclusion zone, thus isolating the islands, or whether new action, such as a limited invasion, should be taken now to enforce the withdrawal of the Argentine forces.

The appraisal going to senior ministers is that there are no signs yet of any movement towards a deal in Buenos Aires.

Mrs Thatcher and her colleagues are due to take stock of the position this morning in the light of the weekend's military events and of Mr Pym's visit to the U.S., at the end of which he said diplomatic efforts did not "look terribly hopeful at the moment."

The small group of senior ministers concerned with the crisis is due to meet at 9 am to hear Mr Pym's report before a full Cabinet meeting at 10 am. A statement will be made to the

Falkland stories in full, Pages 2 and 3
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Argentina: A crisis of identity, Page 16

Commons in the afternoon, probably by Mr Pym, though no decision has been reached.

After the military events of the last three days the Government will face a delicate operation to maintain broad political support at Westminster. Ministers are assured of strong, and probably vocal, backing from Tory backbenchers, but they may face doubts from some Labour MPs. But the view at Westminster is that the bipartisan approach is still—just—intact, though undoubtedly strained.

Following the refusal of Mr Michael Foot, the Labour leader, to join in confidential talks of all party leaders at Downing Street, Mrs Thatcher will this morning decide whether to go ahead with discussions with Mr David Steel of the Liberals and Dr David Owen of the Social Democrats who have accepted. Any discussion would be on the diplomatic side and operational matters would be excluded.

Explaining his decision, Mr Foot said in Ebbw Vale yesterday that Labour believed that the House of Commons was the proper place for these discussions to take place.

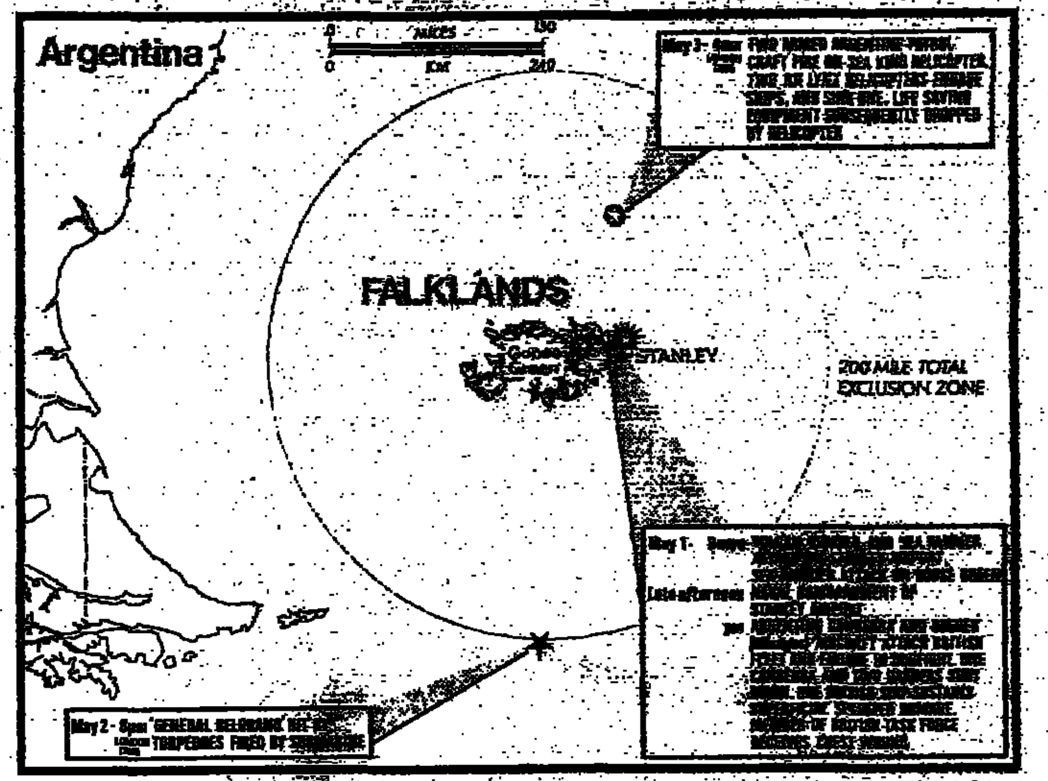
"We believe it is essential for the interests of the country as a whole because we believe the fullest possible reports should be given in the House of Commons, particularly on the diplomatic aspects of the matter."

Mr Foot argues that the Opposition should be free to scrutinise Government actions and not be inhibited by secret briefings.

Mr Foot yesterday refused to comment on the latest military developments before a Shadow Cabinet meeting this morning. His view, backed by most Labour MPs, is that it was right to send the task force to reinforce diplomatic efforts. But he has taken a somewhat ambiguous position over the use of force and has clearly distanced himself from Mrs Thatcher in his stress on the immediate involvement of the United Nations in negotiations.

A key test of the effect of the crisis upon the Government's standing will come in Thursday's elections for nearly 5,000 local council seats in England and Scotland. Recent opinion polls indicate a sharp rise in Conservative support as previous waverers have rallied behind Mrs Thatcher at a time of national crisis.

The main impact could be on the SDP/Liberal Alliance which is making its first nationwide challenge and could ge squeezed by any Tory recovery.




# Argentine ship is sunk as Britain steps up pressure

BY DAVID TONGE IN LONDON AND JIMMY BURNS IN BUENOS AIRES

BRITAIN stepped up military pressure on Argentina yesterday, sinking an armed Argentine patrol craft only hours after a submarine had "severely damaged" the General Belgrano, the cruiser which is the second largest ship in the Argentine fleet.

Last night the Argentine chiefs of staff said the cruiser is "presumed sunk" in the South Atlantic. There was no word on the fate of the estimated 1,000 crewmen aboard the ship.

The Ministry of Defence said yesterday that the cruiser "posed a significant threat to the British task force." Her 6-in. guns have a range of about 12 miles.

These two incidents came after a weekend which saw Britain and Argentina sharply intensify hostilities and Britain prepare to send more troops to the South Atlantic.

On Saturday Britain launched air and sea attacks on Port Stanley airfield and the airstrip of Goose Green.

The Argentines retaliated by sending Canberras and Mirages to attack the British task force. One Canberra was shot down, as were two Mirages, one by the Argentines' own fire, according to the Ministry of Defence in London.

The Argentine patrol craft sunk yesterday was apparently trying to run from Port Stanley. Another patrol craft with her was damaged by Royal Naval helicopters after they had been detected.

Argentina yesterday put a bold face on its military reverses, announcing despatch of vessels to the area of the cruiser to help her "if necessary."

A military communiqué admitted that the Belgrano had been hit, but last night the junta continued to claim that she had knocked out a number of British Sea Harriers.

At the weekend it claimed that 11 British Harriers were destroyed, but the Ministry of Defence issued a lengthy rebuttal yesterday of Argentine "fabrications."

No British aircraft had been lost and only one ship suffered superficial shrapnel damage, the spokesman said yesterday. One member of the task force had suffered a chest wound, he added.

The three days of fighting appear to have hardened attitudes on both sides.

In Buenos Aires Sr Rudolfo Baltierrez, the Presidential spokesman, confirmed that Argentina had rejected a peace plan put forward at the weekend by Peru.

It was announced yesterday that two of the closest military aides of the President, General Hector Iglesias and Rear Admiral Benito Moya, were flying to Lima, but observers in the Argentine capital connected this to Peruvian offers of military assistance to Argentina if Britain attacked the Falklands.

As the Argentines showed no signs of being prepared to compromise over their claims to the Falklands, in New York Mr Francis Pym, the Foreign Secretary, made a forceful statement of British demands last night.

Speaking after consultations in Washington and at the UN, he stressed Britain's demand for Argentine withdrawal and abandonment of the junta's claims that its sovereignty over the islands was not negotiable.

He spoke with a determination which took many at the UN by surprise. However, after meetings with the UN Secretary-General and the President of the Security Council, he ruled out any immediate UN involvement in the Falklands crisis.

Underlining British resolve, the Ministry of Defence announced yesterday that 5 Infantry Brigade was to be sent to join the estimated 5,000 marines and paratroopers already despatched to the South Atlantic.

The brigade, to include battalions of Gurkhas and Scots and Welsh Guards, will largely travel on the QE II, which was commandeered by the Royal Navy yesterday.

Paul Betts in New York writes: Mr Pym, before returning to London yesterday, claimed that Sr Javier Perez de Cuellar, the Peruvian UN Secretary-General, understood the British position.

But he acknowledged that the Secretary-General did not necessarily share the British view.

The Foreign Secretary also claimed that Sr Perez de Cuellar gave him the impression that he did not feel the time was right for UN involvement.

# Police use gas in Warsaw riots

BY CHRISTOPHER BOBINSKI IN WARSAW

POLISH police using tear gas and batons clashed in Warsaw streets yesterday with thousands of youths protesting against martial law and in support of the suspended Solidarity union.

The protest was the second in three days. On Saturday more than 20,000 Solidarity supporters marched unhindered through the old town but yesterday the authorities evidently decided to enforce the ban on marches and mass meetings.

The demonstration started in Warsaw old town where the streets are narrow at 4 pm when people gathered outside St John's Cathedral and in the square in front of the Castle Royal, which is situated at the edge of the district.

A few minutes later police using loud-halers told the crowd of more than 5,000 to disperse. Soon afterwards they brought water cannon to bear on the demonstrators.

A charge by police with waving batons followed, pushing the crowd back into the square. It was then that skirmishes broke out between the youths and the police who were also firing tea rgas canisters and magnesium flares.

The youths fought back with pieces of concrete broken off ornamental flower containers. The threw back the gas canisters and built makeshift barricades out of benches and scaffolding.

Others took refuge in the many old town churches where masses were due to begin at 6 pm.

The police respected the right of sanctuary of the churches and did not go in.

The picturesque old town square rebuilt after the Second World War was the scene of similar skirmishes with the crowd chanting "Solidarity, Solidarity" and "Who are you working for?" to the police.

The chant changed to "Gestapo, Gestapo," when the police moved forward.

"Free Lech Walesa" was another popular cry.

The skirmishes looked set to go on well into the evening as yesterday was the first day when the curfew has been lifted.

Similar scenes are expected in Gdansk where a Mass was being held yesterday evening to celebrate the May 3 anniversary of Poland's first Liberal constitution in 1791.

# International Harvester chief quits

BY RICHARD LAMBERT IN NEW YORK

MR ARCHIE McCARDELL, controversial chairman of the ailing International Harvester Company, has resigned all offices in the company at a critical moment in its fortunes.

The Chicago farm machinery and truck-maker gave no explanation for this unexpected move, which was effective immediately.

But it said that the management changes which followed from Mr McCardell's departure "would help secure lender approval of the modification that would be required in the company's financial structure."

There was some speculation yesterday that the resignation was part of the price that the banks might be demanding to take part in the company's badly-needed financial reconstruction.

Continental Illinois, one of International Harvester's main lenders, said that it had heard of the resignation only after the event.

*Last week the company set* up a new finance committee responsible for the restructuring programme and relations with the lenders. Though Mr McCardell was on this committee he was not its chairman.

This is the second major change in International Harvester's top management in two months. At the end of March Mr Warren Hayford resigned as president and chief operating officer. The move was not explained, and Mr McCardell took on the additional title of company president.

The new chairman and chief executive is Mr Louis Menk, 64, who recently retired as chairman and chief executive of Burlington Northern and has been on International Harvester's board since 1974.

The new president is Mr Donald Lennox, until now president of Harvester's manufacturing group.

In a separate announcement the United Automobile Workers' union said that its members at *International Harvester had* ratified a new labour contract with the company which would play a key part in its survival strategy.

Under the contract, which runs to the end of September 1984, employees will give up an annual 3 per cent wage rise over the next two years, as well as holiday entitlements, including up to five weeks' paid holiday in both 1983 and 1984.

In return they have been promised an unspecified share in profits in those years, and given various undertakings on plant closures and level of sub-contracted work.

International Harvester's problems date back to a crippling strike by the UAW that began in 1979 and lasted nearly six months. It left a degree of bitterness between management and workforce. Some Wall Street analysts said yesterday that the board changes might be part of an attempt at a fresh start with the unions.

*Men and Matters, Page 16*

QE2 CALLED UP TO FERRY INFANTRY

# Troops may become a garrison

BY ELAINE WOOD

THE luxury liner QE2 has been requisitioned by the Ministry of Defence to carry infantry troops to the Falklands.

The surprise announcement by the MoD yesterday means that Cunard, part of the Trafalgar House group, has the problem of contacting 1,760 people to tell them that the liner's next cruise, due to start *this evening is cancelled.*

A container ship, Atlantic Causeway (also owned by Cunard), of 18,146 dwt and two ferries owned by Townsend Thoresen, have also been requisitioned to assist the QE2. The luxury liner will carry nearly 3,000 men of the 5th Infantry Brigade, who have just returned from a special four-day training exercise in Wales to prepare them for possible action in the South *Atlantic. The container ship* will be used to transport helicopters needed to give the brigade air support.

## Bookings

The liner was due to arrive in Southampton this morning and scheduled to leave the same evening for a 13 day Mediterranean cruise.

It is scheduled to make 22 transatlantic crossings and 15 cruises this year. Bookings for this year's programme were holding up with an average of around 1,400 to 1,500 passengers per trip.

Though Mr Bernard Crisp, Cunard's managing director, was unable to say how *schedules would be affected it* seems likely that much of the early summer programme will be disrupted, which could affect up to 50,000 would-be passengers.

The 67,500-ton luxury liner can carry 1,850 passengers and 1,000 crew. It is equipped with four restaurants, four swimming pools, a gymnasium, shops, a casino, two libraries, plus a wide range of entertainment.

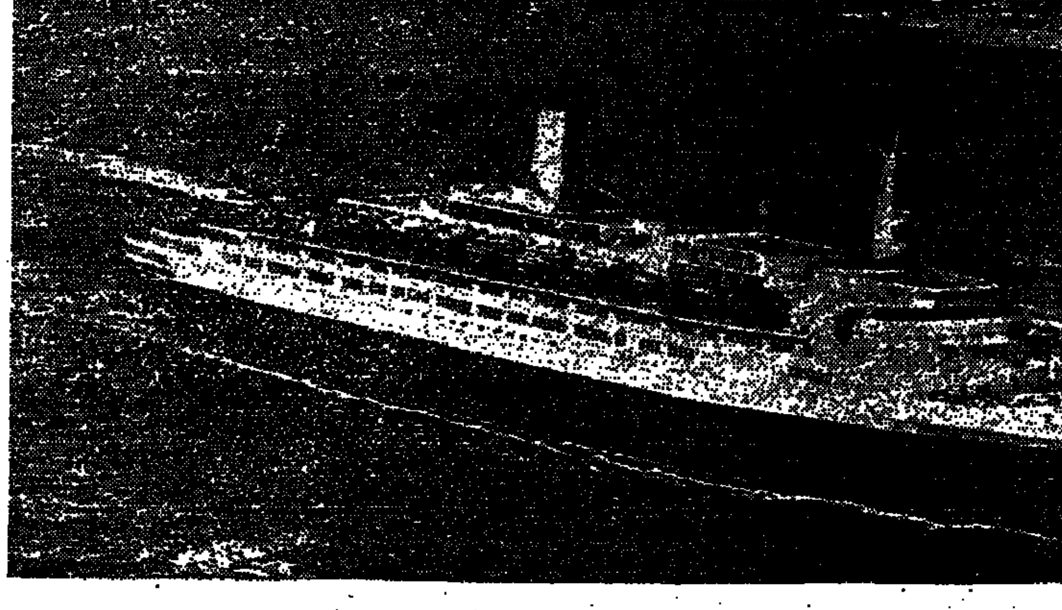
Last year Cunard stated that the QE2 needed to earn around £50m a year to cover its running costs. The UK bill is £10m alone.

Cruises from Southampton to New York start at around £470 for the round trip but longer cruises can range from £6,000 to £32,000 for a world cruise.

The Government has reimbursed shipping companies for the requisitioning of vessels though Cunard has reportedly taken out insurance with Lloyd's against loss of earnings.

The QE2 was earmarked four years ago to be available at short notice to serve as a troop carrier. It is one of about 300 merchant ships which could be used in an emergency to transport reinforcements.

**● The QE 2 on a previous occasion—the Jubilee review of the fleet by the Queen—with warships of the Royal Navy.**



# Pressure grows on Falklands invaders

By David Tonge

THREE SUCCESSIVE days of military engagement between Britain and Argentina have given Britain what its officials wanted—a step up in the pressure on the Argentine junta.

The estimated 10,000 Argentine invasion troops on the Falkland Islands are now isolated and increasingly being reduced towards the status of hostages.

The Argentine air force has tried a first strike against the British task force and, by losing three aircraft, has found the costs involved. The Argentine navy has been given a grim warning of the dangers it faces from British submarines and aircover.

These developments cause many strategists to argue that Britain should now allow this pressure to work through. "I would let the Argentines sweat for a bit," says Admiral Lord Hill-Norton, a former Chief of Defence Staff. He agrees with those who suggest that Britain should now spread "alarm and despondency" through Argentina's largely conscript forces on the Falkland Islands.

Under this approach, the squads of SAS and Special Boat Service personnel believed to be on the islands could sabotage fuel, food and ammunition dumps. Attacks could be made on any remaining Coin planes, a counter-insurgency plane which might well be able to take off from what is left of Stanley airfield and could harass any British attempt at a landing. And the Argentine troops could be kept awake night after night by shelling.

*All this could be combined* with use of electronic measures to interfere with the garrison's communications with Argentina and further underline its isolation.

This waiting game is the first of the major options which remain open to the British. Under this option, troops could at some time be landed on the islands, probably on East Falkland, but not at a point which would lead to an immediate major engagement with Argentine troops.

Britain would probably want to wait until the Canberra, with some 2,000 troops on board, joined up with the main task force, bringing its total complement of marines and paratroopers up to around 5,000.

The Canberra is likely to be on station in the next two days and Admiral Hill-Norton is the first to admit that other pressures could cause the Government to instruct Admiral Woodward, commander of the task force, to act sooner rather than later.

One option Britain appears to have abandoned is leaving an escape route open for the Argentines to withdraw their troops from the islands.

On the political side, the Government now has less faith in being able to negotiate a settlement with the Argentine junta than before. It has to make sure that it acts before public opinion either at home or abroad turns against it. Further, the Prime Minister has made clear her concern about the risks posed by the weather.

The weekend's events have shown that Britain is not hesitating to use force when it perceives a threat. Another option open to it is a pre-emptive strike against the airfields such as Comodoro Rivadavia.

What Britain does largely depends on how Argentina acts next. "They could always try to save face by deploying their airforce against us rather than given in," says Admiral Lord Hill-Norton. Another possibility is that Admiral Isaac Anaya, the Argentine naval chief, might decide to bring his ships forward.

In many ways the British are hoping for this as this will bring them out of the shallow waters off the Argentine coast into the deeper sea where the British submarines, with their torpedoes with a 40-mile range, seem to be waiting.

The despatch of the cruiser, General Belgrano, to waters south of the Falklands indicates that Admiral Anaya is becoming restive. Admiral Lord Hill-Norton says the ship's movements "defy comprehension."

# Sunday service brings air of normality to troopship

BY ROBERT FOX ON CANBERRA

AS THE FIRST news of the air battle round the Falklands reached the Canberra, the troopship observed the rituals of an English Sunday.

In the ship's cinema a congregation of about 100 attended an interdenominational service. Troops, naval officers and ratings, the civilian crew with their junior women officers sporting bonnets like nautical traffic wardens, sang favourites like "He Who Would Valiant Be," and "Eternal Father Strong To Save," and heard an exposition of the raising of Lazarus from a parachute regiment padre.

Little mention was made of the conflict with Argentina, though a Catholic marines chaplain, the Rev Noel Mullen, read a letter from the senior Royal Navy service Catholic chaplain, in which he quoted Cardinal Hume's condemnation of Argentine aggression.

As the service was conducted, marines and paratroopers went through yet another series of exercises for an amphibious assault. The troops learn to embark and disembark from Sea King helicopters. They wear full kit and have their weapons at the ready. They also practice loading into the two main assault craft now being used, the LCU (landing craft utility) which can take a company of men or lorries and guns, and the smaller LCVP (landing craft vehicle personnel) carrying a platoon or a Land Rover and trailer.

One of the biggest problems will be for these vessels to negotiate the surf ferrying men and stores between the fleet and the bridgehead. The inclement weather of the Falklands is one of the most important considerations in the planning of the assault.

According to Commodore Michael Clapp in charge of amphibious warfare: "The weather conditions in the Falklands are not entirely unknown to us. They are much like the winters in the Faroes or the Orkneys."

The other vital piece of assault equipment, besides the landing craft, is the Sea King helicopter. Groups of 20 troops at a time have been practising loading themselves into each helicopter and then taking off and landing again on the flight decks. The object of the exercise is to acquire the ability to do everything in the shortest possible time—at night and in the foulest weather.

"We are particularly pleased with the way this part of the working up has gone," said a staff officer at brigade headquarters. "It is not easy because of the very different kinds of ships involved — warships, assault ships and the many civilian vessels."

Many of the marines and paratroopers seem impatient at not seeing action yet. News of the fighting round the Falklands, awaited avidly on the BBC World Service, is received more quietly than one might expect. This is a strange contrast with the jingoistic bluster of the headlines of the Fleet Street tabloids being brought aboard from time to time.

Conversation on the exercise decks dwell on more practical matters: how to "take out" an enemy heavy machine gun position, and the right quick-dry clothes for the Falklands' peculiarly soggy climate.

Many of the civilian ships such as Canberra and the freighter The Elk are now fully established units of the Assault Task Unit. The prospects are now that they may be so for many months to come, at a cost to the Treasury that can only begin to be guessed at. Figures of £100,000 a day for the Canberra alone are being suggested.

Despite the natural commercial coyness of P&O officers aboard, this cannot be far from the mark. The Government payment will have to take into account loss of advertising by removing the Canberra from the cruise season for so long.

The length and cost of the requisition of the civilian ships, now some 35 in number, may turn out to be one of the most important political as well as tactical factors in the whole British Falklands operation.

# Argentina denies hitch in Soviet grain sales

By Jimmy Burns in Buenos Aires

THE ARGENTINE Government has rejected reports that the Soviet Union is postponing grain contracts, claiming that its grain trade is continuing to run normally in spite of the Falklands crisis.

Sr David Lacroze, the Under-Secretary for Agriculture and spokesman for the National Grain Board, said that Argentina "had no problems" getting international shipping companies to export its grains. He did not believe reports that Moscow, which is the Argentine's main client, was looking to the United States as an alternative source because of Argentina's reluctance to agree to six months' credit on grain exports.

However, according to trade analysts here, the Soviet Union has postponed all new grain contracts with Argentina since the invasion of the Falklands on April 2. "Everyone is waiting to see what happens next," one expert said.

Analysts said new contracts are being stalled largely because of the prospects of an all-out war between Britain and Argentina in the South Atlantic and the negative effects this might have on normal shipping routes.

*Loading* operations at Argentina's major mainland ports have so far been unaffected by the British blockade around the Falklands. Traders privately recognise, however, that normal business would be severely disrupted in the event of fighting.

Grains exported from Argentina during the crisis were committed in contracts signed on the futures markets months ago, and do not reflect any new sales.

Sr Lecroze said that 2.5m tonnes of grains had left Argentine ports during April, although he did not detail what proportion of this had been in Soviet ships.

Argentina is expecting a 1981-82 grain and oil seed harvest of about 34m tonnes. This is higher than was forecast a few months ago, when severe drought had provoked fears of substantial crop losses. The drought damaged wheat production but recent rains, although delaying the harvest, have generally benefited maize and oil seed crops.

Argentina is hoping to have 19m tonnes available for export this year. This compares with exports of 20.4m *in 1981 from the record 1980-*81 harvest of 35.7m tonnes. Up to the end of the first week in March, Argentina had committed 8.3m tonnes for sale from the 1981-82 crops—some 80 per cent of this to the Soviet Union.

Significantly, Argentina's grain trade was already in difficulties before the April 2 invasion. Disruption from recent rains had compounded problems already caused by the late start to coarse grain harvesting this year and had caused a substantial build-up in ships waiting to load. This is believed to have held up payments.

# Japan adopts cautious 'sanctions'

BY CHARLES SMITH, FAR EAST EDITOR IN TOKYO

JAPAN took two cautious steps towards the adoption of an Argentine sanctions policy over the weekend although officials refused to admit that the word "sanctions" was appropriate for what had been done.

The first of the steps consists of a warning to Japanese private industry not to take "undue advantage" of moves by the European Community and other countries to ban imports from Argentina.

The second move was an announcement that Japan "does not expect" any applications from Argentina for official export credits "during the present tense situation."

Japan has not explicitly refused to issue any new credits but it can be assumed that official credit lines have been subjected to a de facto freeze while the crisis lasts and that Argentina has been made well aware of this.

Japan's imports from Argentina were worth $281m in 1981 and consisted of manufactured goods, cattle feed and horse meat. The level of imports was almost unchanged from 1980.

*No information is available* on the current level of official credit commitments to Argentina but Japanese companies have been discussing a number of major projects which might require large-scale support from the State-owned Export Import Bank.

The Bank will presumably not be able to go ahead with loans for these projects until after the Falklands issue has been resolved.

Japan's position on the crisis itself is that it regrets the escalation of military activity and still believes in the possibility of a diplomatic solution.

The Foreign Ministry "understands" Britain's claim to be acting in self-defence but does not necessarily agree with it.

# Sixty ships in U.S. manoeuvres

DEFENCE Department officials said yesterday that U.S. military exercises now going on in the Caribbean would serve to back up President Reagan's statement that the U.S. is ready to do whatever was necessary to protect U.S. interests in the area, AP reports from Washington.

The exercises, which go on until May 16, involve 45,000 servicemen, 350 aircraft and 60 ships. The armada includes two aircraft carrier battle groups.

"We want to send a signal to those people who are friends and those who would oppose us in this part of the world that *we can project military force,*" Rear Admiral Robert McKenzie said, who is commanding the Ocean Venture '82 exercises.

But defence officials said the exercises were planned long before Mr Reagan declared in February that America would do "whatever is prudent and necessary" to keep U.S. interests in the Caribbean safe. None the less, they see the exercises as a way of getting Mr Reagan's message across.

Admiral McKenzie and other U.S. officials noted that the Soviet Union was helping Cuba to build its navy from a defensive to an offensive force, particularly with light, fast patrol boats and upgraded MiG fighters.

They *also pointed out* that much of the oil imported by the U.S., along with other key needs such as bauxite, is shipped through the Caribbean sea lanes.

The exercises include amphibious assaults and naval gunnery at the navy's Puerto Rican base, Roosevelt Roads. Another is a marine demonstration that family members and other dependents can be quickly removed from the U.S. base at Guantanamo, on the eastern end of Cuba.

The manoeuvres, held each year for several years, come against a backdrop of increasing interest by the Reagan Administration in the area.

*Washington claims Cuba is* supplying arms to guerrilla movements in Central America, particularly El Salvador.

# Deadly electronic chess games played in South Atlantic skies

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE AERIAL battles that have taken place over the South Atlantic—and which are likely to recur in the next few days—bear no relation to the "dog-fights" that characterised the great aerial battles of the Second World War, although they are often called by the same name.

Rather they are deadly games of three-dimensional aerial chess, in which each side is armed with high-explosive guided missiles despatched by pilots sitting in airborne electronics "factories" flying at supersonic or near-supersonic speeds.

In the Second World War dog-fights, although pilots were directed by ground radar controllers to the vicinity of the attacking enemy aircraft, it eventually became a matter of seeing one's foe and engaging him directly with wing-mounted cannons that had only a limited range.

The pilots of the Spitfires and Hurricanes in the Battle of Britain had to get close enough to aim their guns through gun-sights, firing until they scored hits or the enemy broke away, or they overshot the enemy. Aerial chases then often took place, creating those curving and swirling vapour trails that were so characteristic of the summer skies over Southern England in 1940.

Not so today. Although today's Sea Harrier pilots may sometimes physically see their foes, more often than not they only see them on their radar screens. The targets are picked up by the Ferranti nose-mounted Blue Fox radar, often at a range of several miles. The radar not only can track the target, but identify it as an enemy. The radar can then feed the detailed information on the enemy's speed, direction and altitude to the Sea Harrier pilot, who can then track it visually or get the radar to do it for him, while he positions his aircraft for an attack.

The Sea Harrier can thus be brought close enough to the target to enable the pilot to fire his Sidewinder missiles while remaining sufficiently far away to be reasonably secure from the enemy's return fire.

The Sea Harrier has a weapons-aiming computer, and is also equipped with ECM—Electronic Counter Measures—details of which are, like much else of its equipment, secret, but which are designed to enable the Sea Harrier to evade any enemy counter-attacks.

The Sidewinder, of which many thousands have been built in various versions over recent years, is a highly manoeuvrable air-to-air missile with its own in-built radar and infra-red guidance system. This enables it to close in on the enemy aircraft, either by homing on to radiation from the enemy's own radio signals, or on to the heat of his engine exhaust. Once the Sidewinder has locked itself on to the enemy, it is virtually impossible for the latter to escape, and the "kill rate" of the Sidewinder is extremely high.

The entire battle can be directed from the task-force ships below—Hermes and Invincible. With high-powered radars installed on both ships, the commanders have a complete picture of what is happening over several hundred square miles of sea and sky, no matter what the weather.

The commanders can thus see the enemy, probably long before the Sea Harrier pilots can pick them up on their own radars, *and can direct their aircraft* towards the enemy to the point where the Sea Harriers' own radars can "acquire" the target. This is where the duel becomes an aerial chess-game, with each side seeking to gain the advantage of surprise and to evade counter-measures. The Sea Harrier pilot not only can draw upon information from the ships below but also has all his own radar and navigation equipment to help him close in for the kill.

**Lt-Comdr Nigel "Sharkey" Ward, 38, the commanding officer of 801 Sea Harrier, Fleet Air Arm, on the carrier Invincible. His pilots in their electronic "factories" may only see their foes on radar screens.**

Another major factor in this modern electronic warfare is *the very high skill demanded of* the Sea Harrier pilots. Although they are flying ship-borne vertical take-off and landing aircraft, they are fighter pilots nevertheless and have been through a long and arduous process of selection and training before reaching their operational squadrons.

They undergo basic flying training, probably in the Bulldog propeller-driven basic trainer, then move on to the Jet Provost or Hawk jet trainers, through to an Operational Conversion Unit where *the pilot is retrained on the* type of combat aircraft he will eventually fly.

Despite the great care taken by the RAF and Navy to pick only the best candidates in the beginning, the training procedure is long and tough and only the top quality pilots get through to the operational squadrons. The training is also costly, amounting to hundreds of thousands of pounds for each pilot.

Also, once operational, each pilot is kept up to a peak of flying skill. Although he may *sit in an airborne electronics* office, every pilot knows that the equipment he commands is designed to kill and that even in electronic warfare second chances very rarely occur. Each attack has to be deadly accurate first time.

# BBC claim on nuclear connection could damage UK

BY DAVID FISHLOCK, SCIENCE EDITOR

ALLEGATIONS MADE in a BBC television programme last month that Argentina was close to building a nuclear weapon because of help it had received from West Germany were easily dismissed in knowledgeable circles in Britain, as unsubstantiated and founded on "very sketchy evidence," to quote one senior official. But in West Germany th eallegations aroused a reaction strong enough possibly to jeopardise German support for British efforts to recover the Falkland Islands.

The BBC programme to judge from the three-page summary published by The Listener, contained serious misconceptions The people who made it acknowledged that the programme drew heavily for its information on soldiers, including guards, rather than on scientific or managerial staff. They concluded — without justification—that the only reason why Argentina should wish to reprocess spent nuclear fuel was to extract plutonium for a nuclear weapon

They produced no evidence that Argentina was attempting to make weapon - grade plutonium.

They made assumptions about the ease with which plutonium might be made into a weapon.

They spoke of Argentina's "vast uranium deposits." Yet, the Red Book, international bible of uranium resource statistics, puts Argentina well down among the "also-rans," with reasonably assured resources obtainable at less than $130 per kilogram, totalling only 30,000 tonnes. This is less than India or Sweden, for example.

Scarcity of low-cost deposits of uranium is seen by several EEC nations — including West Germany and Belgium—as justification for having *plutonium* fuel technology, to make plutonium-enriched fuel for reactors.

Argentina's nuclear programme so far has been based on natural uranium, heavy water reactors requiring no enrichment. It has four research reactors or similar experimental assemblies.

Siemens provided its first commercial reactor, Atucha I, of 318 Mw, which came into operation early last year. This reactor is performing well, according to the latest figures, having provided about 95 per cent of its design output for the first quarter of 1982.

Atomic Energy of Canada provided the second commercial reactor, Embalse, a 600-Mw Candu reactor, under construction ear Corboda.

The third commercial reactor, Atucha II, was ordered in 1980 *from Kraftwerk Union, together* with plant to supply 250 tonnes of heavywater a year. In addition, an experimental heavy-water plant based on Argentinian technology is nearing completion.

All four research facilities, and the three commercial reactors, are *or will be operated* under international safeguards against nuclear-weapon proliferation. They are regularly inspected by the International Atomic Energy Agency for evidence of any diversion of fuel into unauthorised activities.

Contrary to allegations, Argentina has *made no secret* of its interest in reprocessing spent nuclear fuel, and its plans for a pilot reprocessing operation. It reported publicly at the general conference of the IAEA in Vienna last September that it intends to re-use plutonium as reactor fuel. It told the conference *it had a pilot reprocess*ing plant still under construction and expected to be ready to make a "dry run"—that is, with non-radioactive fuel—before the end of 1981.

The IAEA has a list of a dozen worrying nations with advanced nuclear technologies which refused to sign the Non-Proliferation Treaty (NPT). The list divides into two groups: four — India, Israel, Pakistan and South Africa — with facilities from which agency inspectors are barred. Argentina is one of the other eight, with no facilities known to the agency from which its inspectors are excluded.

There is no question that the 116 signatories of the NPT — including Britain and West Germany—would be much happier if Argentina signed the NPT, or ratified the Treaty of Tlatelolco, which prohibits nuclear weapons in Latin America. Of five signatories — Argentina, Brazil, Chile, Colombia and Cuba—operating or building nuclear facilities, only Colombia so far has concluded a safeguards agreement based on the Treaty of Tlatelolco.

British officials say that, in negotiations over Atucha II with West Germany, the Bonn Government demanded and got from Argentina a bilateral safeguard agreement significantly tougher in terms than *the minimum conditions agreed* by the London Suppliers' Group, which had sought to tighten international restrictions against nuclear weapon proliferation in the late 1970s.

# De Cuellar cancels African trip

SR JAVIER Perez de Cuellar, the UN Secretary-General, has cancelled a trip to Africa beginning on Thursday so that he will be available should his services be sought by Britain and Argentina, Reuter reports from the United Nations.

The Secretary-General and Mr Francis Pym, the British Foreign Secretary, discussed the Falklands situation for more than two hours on Sunday but no settlement formula was discussed. British officials said the time was not ripe for UN involvement.

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# Argentina rejects peace plan and vows to fight on

BY JIMMY BURNS AND ANDREW WHITLEY IN BUENOS AIRES

ARGENTINA yesterday put a brave face on Britain's week-end assault on the Falklands and its air and naval losses, and insisted it was determined to resist militarily any further attacks.

Sr Rudolfo Baltierrez, the Presidential spokesman, confirmed that Argentina has rejected a new peace plan put forward by Peru. Sr Baltierrez said that the plan was "essentially" similar to the last peace proposal presented by Mr Alexander Haig in Washington and turned down by Buenos Aires.

The Argentine position has hardened as a result of the torpedoing of the cruiser General Belgrano, confirmed by the military junta for the first time only at 0.50 local time yesterday.

The latest military communique sail that the Belgrano, the only U.S. warship to survive the Pearl Harbour attack by Japan, had been torpedoed by a British submarine south east of the island of Estados near Tierra del Fuego and outside the 200 mile exclusion zone imposed by Britain around the Felklands.

The communique added that Argentine vesels were heading towards the area to "help the cruiser if necessary." No details of casualties or the state of the warship were given. A news blackout also remained in force as to the exact whereabouts of the main bulk of the Argentine fleet, including the aircraft carrier Veinticinco De Mayo which set sail from the mainland port of Puerto Belgrano nearly two weeks ago.

In a surprise follow-up to Argentina's rejection of the Peruvian proposal President Galtieri has sent two of his closest military aides to Lima. General Hector Inglesias and Rear Admiral Benito Moya left Buenos Aires yesterday on what was officially described as a "special mission." Peru has previously offered military assistance to Argentina in the event of a British attack on the Falklands.

Yesterday was marked by a scarcity of official statements and the impact on the local media of the new censorship imposed by the military on Friday "for reasons of national security."

Newspapers, radio and TV refrained from publishing any reports of military action as claimed by the British Government or the naval task force. Under the new press law any editor publishing information on military movements in the South Atlantic other than those officially confirmed by the Argentine Government is subject to arrest.

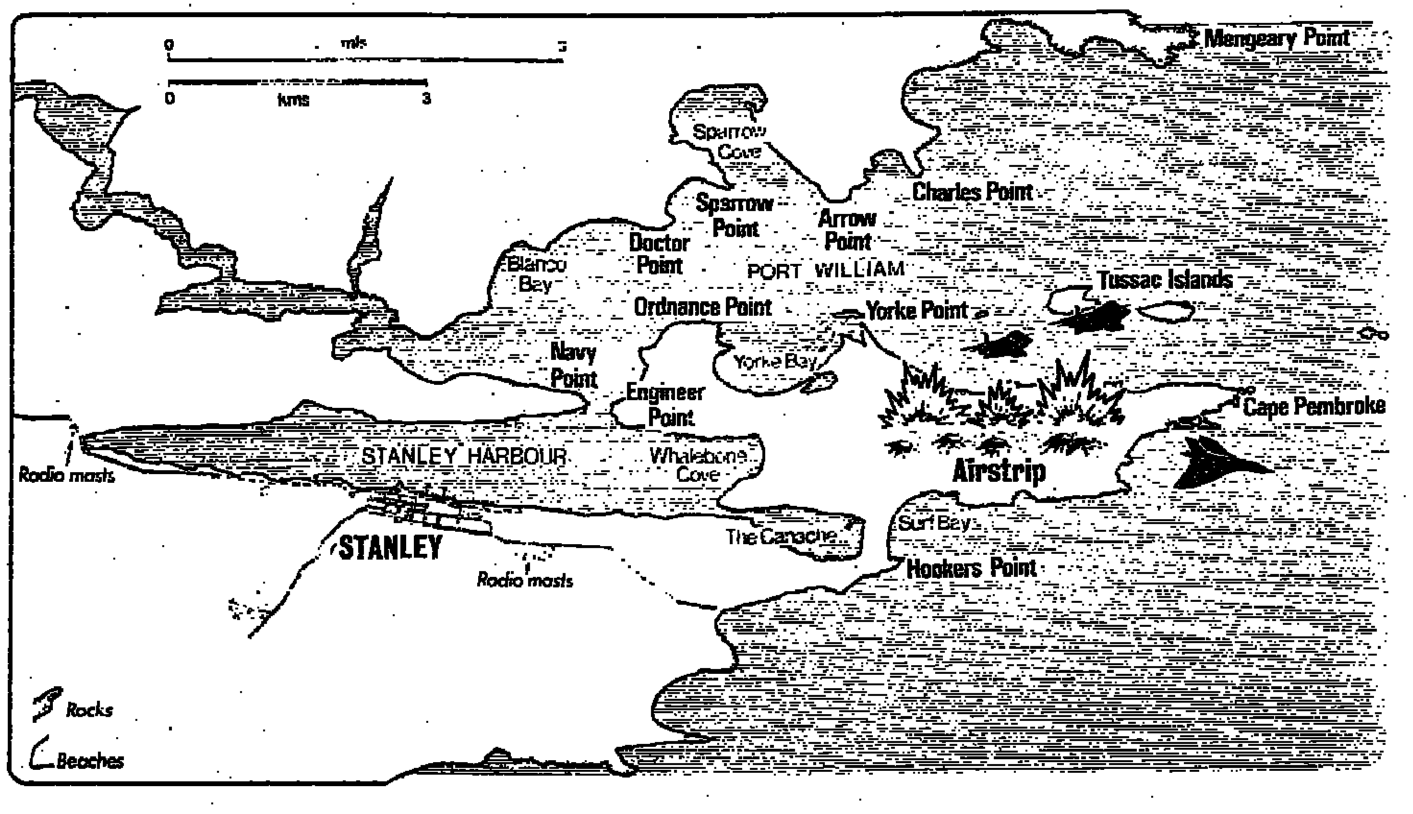
The most detailed account of the latest military clashes came in the newspaper Conviccion, which has close links with the Argentine Navy. In what was claimed as an "exclusive" account of the war, Conviccion repeated Government assurances that four Harrier jets were shot down during the attack on the Port Stanley air base on Saturday.

According to the report the first British attempt at a landing on the island took place at 06.30 local time on Saturday and was repelled by land forces and Pucara propellor-driven planes. Two British helicopters were "shot down and there were an indeterminate number of victims," Conviccion reported. At 09.00 local time two columns of Argentine troops repelled a second attack by British helicopters. At 17.30 local time the Argentines repelled a third landing attempt by helicopters backed by British missile frigates, "seriously damaging two frigates."

Finally Conviccion reported that at 21.00 hours local time on Saturday a two-hour battle developed following another attempt at a landing by British helicopters backed by naval artillery. The claim was that two British helicopters had been shot down in this incident.

Simultaneously the Argentine Air Force and Naval planes—Mirage, Dagger, Canberra, and Etendard—carried out an attack on British vessels belonging to the task force. According to Conviccion one British frigate was damaged, four Harrier jets destroyed, and "another three probably had the same fate."

The newspaper also claimed that the runway on the British aircraft carrier Hermes has been damaged. Amid conflicting reports as to how the damage occurred, the commander of the Third Air Brigade, Brigadier Jose Apolo Gonzalez, was reported as saying that a "heroic pilot," Lt Daniel Cucich, in a Puccara aircraft had attacked the Hermes at "sea level" and had "used all his ammunition" against the aircraft carrier. The pilot was reported by a local news agency as having returned safely




# Venezuela in difficulty over $10bn foreign debt

By Kim Fuad in Caracas

NEGOTIATIONS for a reported $2bn to $2.5bn credit to refinance Venezuela's $10bn short-term foreign debt will resume on Friday in New York, following a meeting in Caracas.

Neither spokesman for the Venezuelan Government nor international banks attending the April 30 Caracas meeting would reveal any details of what transpired.

Dr Cesar Aguado, Director of Public Credit of the Venezuelan Finance Ministry, explained that there was a commitment, proposed by the banks, to withhold all information until next Friday's meeting. The meeting is to be held at the offices of the Morgan Guaranty Trust in New York.

Dr Aguado earlier this year said Venezuela would seek some $3.5bn in foreign loans this year. Since then, however, Venezuela has seen its oil export income, which financed two-thirds of government spending, decline sharply. Last month the Government ordered a 10 per cent cut in the $20bn 1982 budget and other measures to reduce an estimated $3.1bn budget deficit this year.

Alan Friedman adds: In Caracas, one banker who attended last Friday's meeting said that bankers were now considering the feasibility of lending to Venezuela, in view of the Falklands crisis. Interest margins on credits to Latin American countries have been rising generally, but it is thought that if the Venezuelan jumbo goes ahead the margins will have to be higher than in recent borrowings.

Richard Johns adds: Ecuador has admitted selling oil on the spot market at a discount. Yesterday Sr Cesar Guerra, director-general of the Oil Ministry, said 1.8m barrels were sold last week at an average of $32.20 each

# International anxieties increase over Britain's military actions

BY OUR FOREIGN STAFF

THE SPANISH Foreign Minister, Sr Jose Pedro Perez-Llorca, yesterday left for the U.S. to sound out the possibility of Spain playing a part to end the conflict between Argentina and Britain over the Falklands.

Before leaving, however, he insisted that Spain was not formally offering to act as a mediator.

The Spanish Government is increasingly moving to siding openly with the Argentines. A Government statement over the week-end deplored the escalated British action saying that Britain was incurring "a serious responsibility and committing an historic mistake."

The Prime Minister went even further in coments to the Press, criticising Britain for having negotiated "little and badly."

The Press and state-controlled television are also reflecting strong emotional support for the Argentine position. The Argentine communiques on the fighting are being given precedence over British. On television, the British statements about the fighting have been at times completely ignored.

In France, in the absence of any formal government response to the intensified British military action, officials yesterday reiterated the French belief in "moderation" and a "negotiated settlement." But there is little doubt that the Government is apprehensive about the British use of force

This concern was spelt out in an editorial in Le Monde yesterday, which was critical of the British action as unleashing "a formidable anti-European wave in most Latin American countries." The paper described the conflict as a gift to the Russians, who knew how to exploit it, and added that a British victory would solve nothing.

In Dublin, the Irish Government is becoming increasingly embarrassed by the worsening situation and may have difficulty in supporting the renewal of EEC sanctions against Argentina if the issue arises on May 17.

The Fianna Fail Government has been in some difficulty about the Falklands dispute since the beginning. The parallels with Northern Ireland, while not exact, are a little too close for comfort. However, Dublin was able to support UN resolution 502, and the EEC trade ban, on the grounds that Argentina had resorted to force.

In a weekend statement, however, the Irish Cabinet said it was seriously concerned at the escalation of military activity in the South Atlantic, since Ministers believe an adequate framework exists to promote a negotiated settlement.

Italy is following the mounting tension with a mixture of titillation and apprehension. The military engagements command banner headlines in every paper.

In a few cases the headline writers have been tempted to play up the claims of the Buenos Aires regime—according to the Milan-based Corriere Della Sera, the junta had claimed 13 British aircraft shot down and the Hermes out of action.

Leader comment is scant but Il Giornale, the right-wing Milan daily, stresses that if and when the real cruch comes, with an internationalisation of the conflict, then Italy and the EEC will have to side with Britain as a Western democracy doing battle with a "Fascist-like dictatorship."

Most papers point to the professionalism of the British forces, which, in the view of La Stampa's correspondent in London, could prove the trump card. Full-scale landings on the Falklands were likely shortly, he claimed.

Most papers also carry the Nelson-like remarks attributed to Sr Benjamin Menendez, Govenor of the islands, when confronted by a purported surrender demand from the British task force.

"Don't be absurd, we're winning. Bring the little Prince (Andrew) along and come and get us," he said.

Sr Alberto Zambrano, Foreign Minister, in a statement read over radio and television networks, also called on the UN Security Council to carry out all steps aimed at preventing war between Britain and Argentina in the South Atlantic.

In Latin America, the Venezuelan Government charged the U.S. with breaking inter-American solidarity following its support for Britain over the Falklands crisis.

Panama also condemned Britain's attacks on the Falklands. In Lima Peruvian musicians said they would start a boycott of British music and would ask the country's disc jockeys to support the ban.

"The bellicose actions of Britain damage the fundamental principles of the United Nations," a Panamanian Foreign Ministry communique said.

Panama, one of Argentina's firmest supporters in the crisis, called at the weekend for an immediate ceasefire and further diplomatic efforts to find a solution.

The Soviet Union accused Britain yesterday of "the grossest disregard" for international law in the Falklands crisis and denounced "U.S.-backed British aggression" against Argentina.

Tass news agency analyst, Mr Yuri Kornilov, whose commentaries are thought to reflect high-level Kremlin thinking, said London was "stubbornly disregarding" UN resolutions calling for decolonialising the islands.

By planning to forcibly retake the islands from Argentina, Mr Kornilov wrote: London was violating international law and the UN Charter under which members "refrain in their international affairs from the threat or use of force."

He said there was "every reason to speak, apparently, about a U.S.-backed British aggression against Argentina" because Washington had "openly stated its support for London."

The state-run Soviet press has supported Argentina's claim since it seized control of the Falklands on April 2. But Mr Kornilov's commentary was believed to be the most authoritative statement yet from Moscow on the British-Argentine conflict.

He said "excessive imperial and hegemonistic ambitions" of Western leaders were responsible for the world's latest crisis, and that they were seeking to create "ever new seats of tension" by "gunboat diplomacy."

**Three delegates of the International Committee of the Red Cross left Buenos Aires yesterday for southern Argentina from where they will fly to the Falkland Islands "if the situation permits," the Swiss-based agency said, AP reports from Geneva.**

**The Red Cross said the mission resulted from a series of talks with Argentine authorities, during which the Red Cross expressed its concern about the situation of the civilians living on the islands as well as in the south Argentine cities.**

# Caracas sends spare parts for Mirages

BY AUR CARACAS CORRESPONDENT

VENEZUELA is sending Argentina spare parts for its Mirage aircraft and other military material, according to press reports, Our Caracas Correspondent reports. This reflects a hardening of attitude in support of Argentina in the Falklands dispute.

El Diario de Caracas said that the material was being sent from the Libertador military base in Maracay, west of Caracas, where the Venezuelan air force has a squadron of the French fighters.

There was no immediate official confirmation of the shipments, but President Luis Herrera Campins, when asked on Sunday whether Venezuela would send arms to Argentina, said: "In matters of war one should never show his hand."

Dr Herrera also proposed a review of inter-American relations while sharply criticising the U.S. for its support of Britain. Earlier, the Venezuelan Foreign Ministry issued a nine-point communique detailing the country's position.

Reuter adds: Venezuelan air traffic controllers said yesterday they would boycott commercial British flights in protest at Britain's military action against Argentina.

A spokesman for the Venezuelan Air Traffic Controllers' Association said details of how the boycott would be applied and when it would begin were still being worked out.

British Caledonian is the only British airline with regular flights to Venezuela and operates a twice-weekly service to Caracas.

A spokesman for the airline said last night's flight from London arrived without incident and the company had not so far received any notification that it would be affected by a boycott.

Peruvian airport workers last week began a boycott of British flights in solidarity with Argentina.

# OVERSEAS NEWS

## Less growth, more jobless expected in West Germany

BY JONATHAN CARR IN BONN

WEST GERMANY'S leading economic research institutes now expect less economic growth and more unemployment this year than they did six months ago. But they also believe the current account will swing clearly into surplus.

In their joint spring report issued yesterday, the institutes say they expect the economy to grow in real terms, after allowing for inflation, by just 0.5 per cent, after contracting last year by 0.3 per cent.

This figure is not only below the institutes' own projection for 1982, made last autumn, of 1 per cent real growth, but is markedly below the current expectations of the Government (1 to 1.5 per cent) and leading banks.

In line with their lower growth forecast, the institutes estimate that the number of jobless in Germany will average 1.8m this year or 7.5 per cent of the labour force, compared with an unemployment rate of 5.4 per cent in 1981. Last autumn the institutes said they expected an average of something over 1.6m unemployed in 1982.

Despite differences over the exact growth figure, most economic experts feel that the worst of the recession is over and that there will be a clear upturn in the second half of this year.

In their report, the institutes stress that the conditions for an upswing have improved through the gradual fall in domestic interest rates and oil prices, the cut in the current account deficit thanks especially to surging exports, and through moderate wage settlements.

But they also underline that it is taking longer than anticipated for business confidence to recover from the shocks of the second oil crisis. They suggest that Government economic policy has not done much to speed up the process.

One institute, based in Kiel, is more trenchant on these points and, in a separate view appended to the main report, argues that a boost to company profits, investment and industrial production will take still longer to emerge.

On the inflation front, the institutes expect the increase in consumer prices to average only 4.5 per cent this year, compared with an average of 5.9 per cent last year.

**WEST GERMAN ECONOMIC DEVELOPMENT**
(Percentage change)

| | A | B | C | D |
|---|---|---|---|---|
| GNP (real terms) | −0.3 | 0.5 | 0.5 | 1.0 |
| Consumer prices | 5.9 | 4.5 | 5.5 | 4 |
| Fixed asset investment (real terms) | −3.3 | −5 | −6.5 | −4 |
| Net wages and salaries | 4.1 | 1.5 | 2 | 1.5 |
| Number of employees | −0.6 | −1.5 | −1.5 | −1.5 |
| Export (real terms) | 8.9 | 6.5 | 10 | 3.5 |
| Current account of balance of payments (DMbn) | −17.1 | 5 | (not given) | |

A 1981 performance.
B 1982 performance (estimate).
C First half 1982 (estimate).
D Second half 1982 (estimate).

Source: West German Economic Institutes

## Le Monde journalists choose new editor

BY DAVID HOUSEGO IN PARIS

AFTER THREE years of indecisive wrangling the French daily Le Monde appears to have found itself a new editor. M Andre Laurens, 48, and currently deputy head of the paper's political staff, won 71 per cent of the votes of his 200 fellow journalists on Sunday in a ballot to choose a successor to the existing editor, M Jacques Fauvet.

M Laurens is expected to maintain the radical left wing stance of the paper, which has a circulation of 550,000, but to give it a more critical tone towards the present Socialist administration.

A reserved, tolerant and rather quiet figure, M Laurens is not enormously well known among Le Monde's staff in spite of having been with the paper for nearly 20 years.

One of his main tasks, in fact, will be to dampen down the ideological conflicts that have beset the paper in recent years and which came to a head over the battle for the editorship.

M Laurens is said to have told his colleagues that if they wanted a leader in the military sense—Le Monde's only two other editors to date have been men of determined views and leadership—he was not the right choice. He offered himself as a colleague and somebody who would establish confidence through collaboration.

In this sense the journalists have also opted for a complete contrast to M Claude Julien, 56, a former foreign editor and active protagonist for third world causes, who had been their first choice as editor. M Julien was named in June 1980 as editor designate after an often bitter election process. But earlier this year, following a controversy on the leaking of confidential news about the paper's affairs, the journalists decided that they did not want him after all.

M Laurens was nominated by a committee of "seven wise men" in a bid to resolve the conflict that has been damaging morale at the paper.

His choice has still to be ratified by the founders of the paper and by its administrative and white collar staff under a unique election system. But the result is now regarded as a foregone conclusion.

M Laurens is said by friends to be a man who is not deeply committed politically but who, once he has taken a stand, sticks by it. Some doubts are voiced, however, over whether he will be able to inject dynamism into the paper so as to win back the readers it has been losing to competitors.

In 1972 he published in collaboration with M Thierry Pfister, now the Prime Minister's Press secretary a book on "The New Communists."

## Lebanon on brink of sectarian outbreak

By Our Beirut Correspondent

A FRESH outburst of sectarian violence in the Lebanon has been threatened, whether by coincidence or design, as a result of the killing of two Christian Maronite priests and attacks on religious institutions during the past week.

Following the murders, members of the Maronite sect who control east Beirut observed a day-long strike yesterday, the first show of such solidarity since the outbreak of the civil war in 1975-76.

Reminding inhabitants of the possible wider regional implications of an outbreak of violence between the main Christian and Moslem sects, the Maronites and the Sunnis, two Israeli aircraft buzzed the capital at midday.

On Sunday a raider brandishing a gun and hand-grenade entered the Maronite Christian church of Mar Mikhael in the northern, predominantly Sunni Moslem city of Tripoli and killed himself, a woman and a girl when he dropped his bomb during a service.

He had earlier demanded the help of the priest to obtain the release of his brother, allegedly kidnapped by the militia of the Phalangist Party, the dominant Maronite faction.

The incident, which drew condemnation from both Moslem and Christian political and clerical quarters came a day after the assassination of a Martonite monk, Father Phelipe Abu Sleiman, at Aley in the southern mountainous region which is inhabited mostly by Druzes.

Clashes in Beirut's southern suburbs between Shiite fighters of the Amal movement and Lebanese Communists erupted again on Sunday.

## De Mita leads in party race

By Rupert Cornwell in Rome

CLEAR FAVOURITE to become secretary of Italy's dominant Christian Democrats, is Sig Ciriaco De Mita, who has won the backing of an alliance of factions from the Left and Centre of the party.

The choice facing the 1,351 delegates to the 15th Christian Democrat congress in Rome, as it completed its second day, was reduced to one between Sig De Mita, the current deputy secretary, and Sig Arnaldo Forlani, the former Prime Minister, who is broadly backed by the Right and part of the Centre.

Such are the intricacies of Christian Democrat politics that nothing is certain until the outcome of the final voting, which is expressed on Thursday. But the grouping which has so far come out in favour of Sig De Mita is formidable.

It embraces not only the party's powerful left-wing factions, headed by Sig Benigno Zaccagnini, a former secretary, and the ex-Premier, Sig Giulio Andreotti, but also those sections of the Centre led by Sig Amintore Fanfani, the president of the Senate, and Sig Flaminio Piccoli, the outgoing party secretary.

In his opening address the 67-year-old Sig Piccoli declined to stand again for the job, declaring that a younger man should take in hand the task of renewing the party, and improving its waning appeal.

At 54, Sig De Mita is youthful by Italian political standards. He comes from the left of the party.

## Airlines agree to flexible fares structure on transatlantic routes

BY ANATOLE KALETSKY IN WASHINGTON

A NEW, more flexible fare structure for transatlantic air routes was approved on Sunday by the U.S. and 10 European nations. The agreement allows airlines unprecedented freedom in setting fares without prior approval from Government aviation authorities and enables them to co-ordinate fares voluntarily through the International Air Transport Association (IATA).

However, the immediate effect of the agreement on overall fare levels is said to be uncertain by participants in the negotiations and spokesmen for the airlines.

The new fare system will be based on a "reference fare" for each transatlantic route and will reflect the current average fare level. Airlines will be free to set coach fares within a range of 20 per cent above or below the reference point. Business class fares will be variable from 20 per cent to 50 per cent above the reference and discount fares will be allowed to drop 50 per cent below the reference level. Prior approval from aviation authorities will be required only for fares outside these ranges.

The new system, which has been initialled though not yet formally signed by representatives of the 11 countries involved, is due to go into effect on July 1. The countries which have given their approval are the U.S., Belgium, West Germany, Greece, Ireland, Italy, the Netherlands, Spain, the UK and Yugoslavia. Portugal is expected to initial the agreement in the near future.

A spokesman for the U.S. Civil Aeronautics Board said that the new system will probably lead to sharper variations in fares between seasons and give airlines a better chance of filling their aircraft and lowering overheads. Airline officials expect that fare structures will now rise more frequently, but by smaller steps

## Law of Sea warning to dissenters

By Our United Nations Correspondent

LEGAL BATTLES may lie ahead if Western mining companies try to exploit the mineral resources of the sea bed outside the provision of the new international convention on the law of the sea, which was approved by a United Nations conference on Friday.

Support for the treaty, eight years in the making, came mainly from Third World States. The U.S. was among four countries that voted against, and Britain, West Germany and the Soviet Union were among 17 abstentions. There were 130 votes in favour of the convention, which is to be opened for signature at a ceremony in Caracas in December. The treaty will come into force when 60 countries have ratified it.

The president of the conference, Mr T. T. B. Koh of Singapore, made clear that dissenting from the treaty or abstaining and then acting as if it did not exist would spell trouble for countries that decided to follow that course.

He told correspondents that any attempt by such countries to make their own mini-treaty to permit seabed mining would be met by a stern legal challenge.

"I will take it upon myself to persuade the General Assembly to ask the International Court of Justice for an advisory opinion on whether such activities under unilateral national legislation are lawful," Mr Koh said.

Mr James Malone, the chief U.S. negotiator, told a Press conference that Washington was still examining the possibility of proposing a mini-treaty.

Mr Malone said the U.S. had not decided whether to sign and ratify the UN convention, despite its negative vote.

## OECD predicts Belgian recovery

BY GILES MERRITT IN BRUSSELS

THE TOUGH economic austerity measures imposed by Belgium's Centre-Right coalition Government are to receive a major political boost with the publication of encouraging OECD projections for the Belgian economy.

The forecast by the Paris-based Organisation for Economic Co-operation and Development include a pick-up in Belgium's economic growth rate and in industrial production, an improvement in the Belgium-Luxembourg balance of payments gap, and the stabilisation of unemployment.

The indications of an upturn this year and further marked advances for 1983 are expected to come as a welcome relief for the Social Christian-Federal coalition led by Mr Wilfried Martens. Since taking office less than six months ago the Government has pushed through a programme of public spending cuts and wage restraint that has sparked growing political resentment, particularly in the French-speaking region of Wallonia where the Parti Socialiste, which has been excluded from the new Government, is dominant.

According to well informed Brussels sources, the OECD figures due to be released in Paris later this week show Belgium's GDP this year recovering from its 0.9 per cent drop during 1981 and increasing by 0.7 per cent, with a further 2.2 per cent rise in 1983.

Although the OECD figures see a slight surge in inflation, with the 1981 rise of 7.7 per cent in the consumer price index going to 9.7 per cent this year and 10 per cent in 1983, the Belgian government is certain to see that as a small price for the slackening in the politically damaging jobless rate.

Last year's 10.4 per cent unemployment rate will rise to 11.8 per cent this year.

With Belgium's vital export industries expected to mark a 5 per cent increase in sales this year, and 7.5 per cent in 1983, and with imports advancing only 0.7 per cent and 5 per cent respectively, the OECD analysts forecast the payments gap narrowing from 5.3 per cent of GDP last year to 4.6 per cent in 1982 and 3.4 per cent in 1983.

## Iran buoyant after war thrust

IRAN CLAIMED yesterday, the fourth day of its latest and largest offensive in its war with Iran, to have consolidated positions west of the highway between Ahwaz and Khorramshahr, writes our foreign staff.

Claims of the rival communiques issued by Tehran and Baghdad conflicted, as usual, but Ayatollah Khomeini's regime is clearly in a buoyant mood and appears to have the upper hand psychologically.

On the internal front Tehran Radio announced that Iranian security forces had killed or arrested more than 50 members of the Mujahedin-e-Khalq guerrillas, claiming that more than 10 of its bases had been destroyed and important documents seized.

## Strike called in Portugal

BY DIANA SMITH IN LISBON

Portugal's Communist-led trade union confederation CGTP-Inter has called a general strike to protest against police action in Oporto on the eve of May Day in which two youths were killed, and dozens of police and civilians injured.

Trouble began when CGTP supporters tried to storm a poorly attended festival organised by the non-Communist labour confederation UGT, maintaining that the Oporto authorities had granted the venue illegally. A policeman knocked from his motor-cycle by a flying stone apparently panicked and fired a shot at the ground, but the bullet ricocheted and killed a youth. After that, pandemonium broke out.

The disturbance has serious implications for the government of Sr Francisco Balsemao, which lacks popular support.



## BASE LENDING RATES

| | | | |
|---|---|---|---|
| A.B.N. Bank | 13 % | Grindlays Bank | ‡13 % |
| Allied Irish Bank | 13 % | ■ Guinness Mahon | 13 % |
| American Express Bk. | 13 % | ■ Hambros Bank | 13 % |
| Amro Bank | 13 % | Heritable & Gen. Trust | 13 % |
| Henry Ansbacher | 13 % | ■ Hill Samuel | §13 % |
| Arbuthnot Latham | 13 % | C. Hoare & Co. | †13 % |
| Associates Cap. Corp. | 13 % | Hongkong & Shanghai | 13 % |
| Banco de Bilbao | 13 % | Kingsnorth Trust Ltd. | 14 % |
| BCCI | 13 % | Knowsley & Co. Ltd. | 13½ % |
| Bank Hapoalim BM | 13 % | Lloyds Bank | 13 % |
| Bank Leumi (UK) plc | 13 % | Mallinhall Limited | 13 % |
| Bank of Cyprus | 13 % | Edward Manson & Co. | 14 % |
| Bank Street Sec. Ltd. | 14 % | Midland Bank | 13 % |
| Bank of N.S.W. | 13 % | ■ Samuel Montagu | 13 % |
| Banque Belge Ltd. | 13 % | ■ Morgan Grenfell | 13 % |
| Banque du Rhone et de la Tamise S.A. | 13½ % | National Westminster | 13 % |
| Barclays Bank | 13 % | Norwich General Trust | 13 % |
| Beneficial Trust Ltd. | 14 % | P. S. Refson & Co. | 13 % |
| Bremar Holdings Ltd. | 14 % | Roxburghe Guarantee | 13½ % |
| Brit. Bank of Mid. East | 13 % | E. S. Schwab | 13 % |
| ■ Brown Shipley | 13 % | Slavenburg's Bank | 13 % |
| Canada Perm't Trust | 13½ % | Standard Chartered | ‖13 % |
| Castle Court Trust Ltd. | 13½ % | Trade Dev. Bank | 13 % |
| Cavendish G'ty T'st Ltd. | 14 % | Trustee Savings Bank | 13 % |
| Cayzer Ltd. | 13 % | TCB Ltd. | 13 % |
| Cedar Holdings | 13 % | United Bank of Kuwait | 13 % |
| ■ Charterhouse Japhet | 13 % | Whiteaway Laidlaw | 13½ % |
| Choulartons | 13½ % | Williams & Glyn's | 13 % |
| Citibank Savings | ¶12¾ % | Wintrust Secs. Ltd. | 13 % |
| Clydesdale Bank | 13 % | Yorkshire Bank | 13 % |
| C. E. Coates | 14 % | | |
| Consolidated Credits | 13 % | | |
| Co-operative Bank | *13 % | | |
| Corinthian Secs. | 13 % | | |
| The Cyprus Popular Bk. | 13 % | | |
| Duncan Lawrie | 13 % | | |
| Eagil Trust | 13 % | | |
| E.T. Trust | 13 % | | |
| Exeter Trust Ltd. | 14 % | | |
| First Nat. Fin. Corp. | 15½ % | | |
| First Nat. Secs. Ltd. | 15½ % | | |
| Robert Fraser | 14 % | | |

■ Members of the Accepting Houses Committee.
* 7-day deposits 10%, 1-month 10.25%. Short term £8,000/12 month 12.6%.
† 7-day deposits on sums of: under £10,000 10¼%, £10,000 up to £50,000 11%, £50,000 and over 11½%.
‡ Call deposits £1,000 and over 10%.
‖ 21-day deposits over £1,000 11¼%.
§ Demand deposits 10¼%.
¶ Mortgage base rate.

# EEC approval sought to cut plastics capacities

BY KEVIN DONE IN FRANKFURT

HOECHST of West Germany, one of Western Europe's leading plastics producers, is seeking approval from the European Commission for preliminary industry moves to cut plastics capacities and stem rising losses.

European commodity plastics producers ran up a deficit last year estimated by Hoechst at around DM 3bn (£698m).

The West German group is keen to get the backing of the Brussels cartel authorities to allow the exchange of accurate information between companies on existing production capacities.

Such a system could work in a similar way to the information exchange agreed by man-made fibres producers in the second half of the 1970s. Figures presently available from manufacturers lacked credibility, claimed Professor Rolf Sammet, Hoechst chief executive.

Hoechst itself ran up pre-tax losses of DM 220m on its plastics operations last year, Prof Sammet said yesterday. The group is to cut its high density polyethylene (HDPE) capacity at Höchst, near Frankfurt, by 80,000 tonnes, reducing its West German HDPE capacity to 470,000 tonnes.

In addition it is negotiating with the trade unions at its Breda chemicals complex in Holland the closure of 30,000 tonnes of its 180,000 tonnes Dutch polystyrene capacity.

The Hoechst chief executive said that the consumption of plastics had slumped by nearly 10 per cent in Western Europe last year. Demand for low density polyethylene and PVC (polyvinyl chloride) were worst hit with falls of more than 10 per cent, while volume sales of polystyrene and high density polyethylene fell by about 5 per cent.

Hoechst plants have been operating close to the minimum technical levels of only 60 per cent of capacity. Prices had plummetted, said Prof Sammet, partly as a result of oil companies with integrated plastics production running plants "in any way possible" to help their beleagured upstream refinery operations.

Since the autumn market prices for PVC and LDPE had fallen in some cases below the level of even covering the variable costs of operations.

By announcing plant closures, Hoechst is following the lead set by BASF, the second largest West German chemicals group and West Europe's biggest plastics producer.

Since the first oil crisis in 1973/74 BASF has already cut some 100,000 tonnes of its 1m tonnes polyethylene capacity, and a further 100,000 tonnes is to be closed as part of the group's restructuring. It ran up losses of DM 100m on its commodity plastics operations in the first nine months of 1981.

# Effort to export UK expertise

By Our World Trade Staff

**THE BRITISH Council has launched a new effort to sell British expertise in agricultural training and education.**

**The service is a response to the growing demand for the purchase of such training in the developing world, especially in Africa.**

**Suggested by Mr Peter Walker, the Minister of Agriculture, two years ago, the service will seek to provide market information to potential exporters, mainly educational institutions. This will complement existing export information services from sources like the Department of Trade.**

**The British Council plans also to co-ordinate information about the training services available for selling overseas and offer marketing advice, based on its own traditional experience, to exporters.**

**The scheme could have a spin-off in encouraging the purchase overseas of British educational equipment.**

**The biggest potential market is thought to be Africa.**

# Search for compromise on export credits

BY PAUL CHEESERIGHT AND TERRY DODSWORTH

THE MAJOR industrialised nations meet in Paris this week in the knowledge that, without a greater readiness to compromise on known positions, an export credits war could break out by the middle of the month.

The terms of the present arrangement on guidelines for officially supported export credits, known as the Consensus, expires on May 15. They came into force last November, putting export credit interest rates in the 10.0 to 11.25 per cent band, except for yen financing which was held at 9.25 per cent.

Room for manoeuvre on settling new rates is slight. The U.S., renewing its search for the elimination of export credit subsidies, wants an increase. The EEC wants to maintain the status quo, feeling that last November's increase of 2.25-2.5 percentage points was quite adequate for the immediate future. Japan, where domestic interest rates have declined, wants to offer its official export financing at a lower rate than 9.25 per cent.

Most experts believe that the best hope for raising interest rates lies not in negotiations about the band itself, but in the re-classification of the borrowing countries. They are split into three categories—the relatively rich paying the highest interest rates and limited to credits of 8½ years. The intermediate countries have slightly lower rates, also with a maximum maturity of 8½ years. The relatively poor are on the lowest rates but are able to borrow for up to 10 years.

**The effects of past changes in the export credits Consensus have always been substantially modified by using the device of "prior commitments" to continue offering finance at old rates. Since last November very few credits have been offered at the rates agreed then.**

**Experts think that any changes at this week's meeting will need to be accompanied by an undertaking that "prior commitments" should not last longer than six months. Also, the U.S. will be urged not to extend maturities and the EEC not to lower interest rates beneath agreed levels.**

There is general agreement on the principle of reclassification and a developing move towards the adoption of EEC criteria. At the bottom level, this would use international yardsticks of poverty, laid down by the World Bank and the International Development Association, to settle which countries would be in the third category. There would be about 70, including the least developed countries.

At the top end, the relatively rich, there would be borrowers whose national per capita income is $4,000 or above.

The effect of the suggested changes would be to lift countries like the Soviet Union (per capita income $4,040), Czechoslovakia, East Germany, Bahrain, Spain and Israel from one intermediate to the relatively rich category.

They would also lift the newly industrialised countries like Algeria, Brazil, Chile, South Korea, Malaysia, Mexico, Nigeria and Taiwan—precisely the countries where the main export credit business is being done—from the relatively poor to the intermediate category. Countries like Hong Kong and Singapore would be unaffected.

If such changes could go through the Paris meeting in one fell swoop, increasing the interest rate for the main borrowers from 10 to 10.5-11 and shortening maturities from a maximum of 10 to 8½ years, then this would blunt the U.S. bid for generally higher interest rates.

But this looks unlikely, given the EEC's mandate, which the U.S. thinks is "intolerable." At French insistence, the EEC wants the reclassification to go through in two stages, thus diminishing the impact of higher interest rates.

The U.S. would probably agree to no increase at all for the relatively poor. Its price would be to charge higher rates for the intermediate countries and Washington would also ideally want the relatively rich to go straight to market rates for export credits.

U.S. pressure for higher rates in the first two of the revamped categories could be the breaking point for the EEC, which can change its position only by unanimous consent. The idea that the relatively rich should go to market rates has been ruled out.

But EEC unity is fragile and it is not clear what would happen if the negotiations reach the point of bitterness where the breakdown of the Consensus was possible.

There are broadly three camps: In the first are the traditional opponents of subsidy—West Germany and the Netherlands. In the second are the traditional subsidies—France and the UK, Belgium and Italy. The thir camp is Greece, which being a recipient of export credits rather than a provider, wants to be classified as an intermediate country rather than relatively rich. But as its per capita income is $4,140, the other Nine EEC states cannot agree, because it would eliminate the possibility of changing the Soviet Union's position.

In all of this, Japan is quiescent, anxious mainly to reduce the premium on its official lending. When the 9.25 per cent rate was set, the Japanese long-term prime rate was 8.9 per cent. Now it is 8.4 per cent. But neither the EEC nor the U.S. will want to see Japan receive too great a competitive advantage.

With the positions of the major countries in the Consensus so far apart, a breakdown in Paris is a possibility. This could mean that the issue would be pushed up to ministerial level with a time limit set for agreement.

At the worst, it could mean that all countries will ignore the disciplines of the Consensus. The U.S. would offer funds at market rates but at maturities as long as the life of the plant. The EEC countries might offer both long maturities and low interest rates.

# No headway on flags of convenience

By Brij Khindaria in Geneva

NEGOTIATIONS to pave the way to phasing out flags of convenience in merchant shipping have ended without agreement on several disputes between developing and developed countries. The negotiations took place under the auspices of the UN Conference on Trade and Development (Unctad).

New talks at inter-governmental working group level will take place in November. It is still unclear whether they will be aimed at ending flags of convenience or at reforming international rules to make ships flying such flags safer and subject to tighter controls.

Agreement in principle reached on some points under dispute last week indicates that the current trend is towards reform of rules rather than elimination of such flags. A major conference will probably be called next year to make the final decisions.

Agreement in principle also was reached on measures to protect the interests of developing countries supplying cheap labour for such ships, and agreement was near on measures to identify owners of such ships and to prosecute or otherwise punish them for breaches of rules laid down by the countries whose flags they fly and the countries they enter.

Further talks are needed on issues such as manning levels of ships, participating in the equity of ships by nationals of the countries of registration, and the answerability of managers in cases of violation of maritime rules.

# Boeing 767s for Canada

WASHINGTON — The U.S. Export-Import Bank has approved a $83.2m loan to Pacific Western Airlines, of Canada, for the purchase of four Boeing 767-200 jetliners.

The U.S. export credit agency said the aircraft and related equipment will cost about $201.8m.

The Eximbank said the interest rates on its direct loan will range from 9.25 to 12 per cent a year, depending on when the loan funds are actually disbursed.

In addition to the Eximbank credit, the Canadian airline will borrow $88.3m from private sources without Eximbank loan guarantees and will pay the remainder in cash.

Agencies

# Brazil textile aid sought

SAO PAULO—The Brazilian textile industry is demanding Government export subsidies it hopes will avoid retaliation from European and U.S. trading partners.

The European Economic Community (EEC) is Brazil's largest market and takes close to 25 per cent of Brazil's textile exports. The U.S. buys 10 per cent.

Sr Luiz A. Madeiros, Textile Industry Council President, said textile exports should reach $1bn this year, up from $864.9m in 1981.

AP-DJ

SHIPPING REPORT

# Market upturn reversed

BY ANDREW FISHER

THE MODEST upturn in the beleaguered tanker market was not maintained last week, especially in the Gulf.

Far fewer fixtures were concluded there, said E. A. Gibson, shipbrokers. This was especially true of Iran, amid expectations of further hostilities around Kharg Island.

The level for VLCCs (very large crude carriers) to the east stood at worldscale 19.75 and to the west for loading from Kharg Island at worldscale 25 and from other Gulf ports at worldscale 18.5.

Gibson said only one oil company was seeking tonnage from this area at present. There are reckoned to be enough ships available for it to cover its needs at around these worldscale levels.

About 25 large tankers are sitting in the Gulf. Gibson said it had heard of only another eight vessels so far being available in May, which could indicate that owners are not committing further tonnage unfixed so as to avoid more rates reductions.

For smaller tankers between 30,000 and 150,000 tonnes in the Gulf, the picture has been better, with demand for both eastern and western destinations. Owners have found opportunities in Far Eastern markets, with several fixtures from China to Europe and to the U.S. west coast.

But in West Africa there has been no sign of any material turn-round. Cargoes have been few and far between. Though Gibson said several fixtures had been concluded, rates of worldscale 37.5 to UK/Continent and worldscale 35 to the U.S. remain static. But there has been more activity in the Mediterranean.

## World Economic Indicators

INDUSTRIAL PRODUCTION

| | | | | | % change over previous year | Index base year |
|---|---|---|---|---|---|---|
| | Mar. '82 | Feb. '82 | Jan. '82 | Mar. '81 | | |
| U.S. | 141.2 | 142.3 | 139.6 | 152.1 | −7.2 | 1976=100 |
| | Feb. '82 | Jan. '82 | Dec. '81 | Feb. '81 | | |
| UK | 103.7 | 104.6 | 103.5 | 101.4 | +2.3 | 1975=100 |
| W. Germany | 116.5 | 118.1 | 113.1 | 120.3 | −3.2 | 1975=100 |
| France | 112.4 | 113.1 | 115.6 | 115.1 | −2.3 | 1975=100 |
| Netherlands | 107.1 | 105.5 | 106.2 | 113.7 | −5.8 | 1975=100 |
| Italy | 126.0 | 122.7 | 123.7 | 126.2 | −0.2 | 1975=100 |
| | Jan. '82 | Dec. '81 | Nov. '81 | Jan. '81 | | |
| Japan | 149.7 | 149.8 | 150.9 | 144.7 | +3.5 | 1975=100 |

Source (except U.S. and Japan): Eurostat

# Why Alliance has hopes in bastion of Tory support

**Elinor Goodman reports on Thursday's borough council election in the heart of the commuter belt**

Local decisions 82
WOKING

WHEN THE Liberals and Social Democrats were carving up the map of Parliamentary constituencies in Surrey, Woking, deep in the heart of the commuter belt, was considered one of the more promising seats for the Alliance in an area which until now has been an unassailable bastion of Conservative support.

The Liberals, by their own standards, had done well there in the past. They came second in the 1974 elections and, over the years, painstakingly built up pockets of support.

In the 1979 General Election the Tories increased their majority by more than 18,000, but in spite of this the Liberals, with their habitual enthusiasm reinforced by their links with the SDP, were convinced that Woking was potentially winnable for the Alliance if the two parties really worked at it for the next few years.

This week's local elections form the first part of this campaign. The Liberals have been beavering away in local politics for years but for their new SDP partners in the Alliance it will be the first test of their fledgeling organisation. The local elections, says one enthusiastic member in the language of the SDP, are "all part of the learning process."

Eleven of the 35 seats on Woking Borough Council are up for election, and while there is no chance of the Alliance getting power, it will be very disappointed if it does not make inroads into the Tory majority of nine. Its objective, which the established parties claim to find faintly laughable, is an Alliance-controlled council by 1984 and a "significant group" in opposition this time round.

The respectable protest vote in parts of Surrey has long been Liberal. Under normal circumstances, therefore, the Liberals might, at this stage of a Tory Government's life have reasonably been expected to pick up at least two extra seats in Woking.

So to prove that the endless meetings and not inconsiderable sacrifices involved in Alliance politics are worthwhile, the SDP will have to win some seats of their own.

Failure to do so would underline the scale of problem facing the Alliance in winning Parliamentary seats in Surrey. The only consolation for the SDP would be that the Falkland Islands crisis has distorted the result. Indeed, the Falkland Islands do seem to have elevated the election above the usual local concerns, such as holes in the road and the inadequacies of the refuse collection system, to almost supra-political level.

On the doorstep last week, people were still raising local issues far more frequently than anything else, but some people seemed to be almost clicking their heels and saluting as they promised to support the Government in its hour of need.

Woking has all the hallmarks of what used to be regarded as a rock-solid Tory area. The long, tree-lined roads of large detached post-war houses, named but not numbered, double garages and ample gardens full of cherry blossom, could just as well be in Solihull or Beaconsfield or any one of dozens of safe Tory seats within commuting distance of Britain's major towns.

Thirty miles south of London, the borough is made up of dormitory villages, like Byfleet and Pyrford, interspersed with golf courses and patches of Surrey heathland. At the centre is Woking itself, with its almost incomprehensible one-way road system.

The population — and the rating base — is expanding fast: the borough contains what is reputed to be the largest private housing development in Britain, and all over the borough there are smaller, new, private estates.

In some areas, the Liberals and Tories are fighting out a poster war in the trees, but for the most part interest in the local election seems fairly low. Except for those directly involved, Woking politics, it seems, are not a subject to excite much passion. The Tories have run the council since it was formed and have never been in real danger of losing control.

But Labour is stronger in Woking than on almost any other Surrey council. The party is a moderate one, which has lost very few members to the SDP, and has a good working relationship with the Tories on the council. At present it has nine members on the council, and even in bad years for Labour it has rarely had fewer than seven seats as its support is concentrated in a few wards, where there are large council estates which can usually be relied to vote Labour.

The Liberals have two seats on the Borough Council—and the only non-Tory member returned to Surrey County Council by Woking. It has succeeded in building up its own pockets of support in Byfleet—largely on the basis of Tory dissatisfaction over education—and has worked hard at building up local support in several other wards. Under the terms of the local deal with the SDP, the Liberals have had to move aside in one ward which they had high hopes of winning this year.

Unlike in neighbouring Guildford, where the negotiations over seats have strained relations between the two parties almost to breaking point, the Liberals and Social Democrats in Woking have kept to the letter of the Alliance. The Liberals are fighting the seat at a Parliamentary level, so it was agreed that the SDP would fight six seats in the local elections to the Liberals five.

They are using a joint slogan —"put new life into local government"—and produced a joint manifesto which deplores cuts in "essential services," supports the sale of council houses and, like many earlier Liberal manifestos, stresses the need to make local government more responsive to the wishes of the community.

The two parties are also canvassing for each other, but they have retained their separate identities and, the right, in private, to be slightly superior about each other.

The Liberals regard the SDP as inexperienced—which they are. None of the SDP candidates have stood before and of the 180 SDP members only a minority had any previous practical experience in politics.

Many were determined not to merely imitate the old parties, and at least one SDP candidate admits to being slightly frustrated by the way that every time the SDP suggests a new idea the Liberals claim to have tried it before and found it wanting.

Similarly, the SDP was disappointed when it discovered that the election rules prevented it from mounting a "happening" in the town centre during the campaign.

For the most part, the SDP has found that it has to approach local elections in the established way. There is no alternative, it seems, to canvassing and pushing leaflets through doors. The SDP is not short of enthusiasm, but it has far fewer people working for it than the Conservative party.

The Social Democrats claim to have had a friendly reception throughout the borough, particularly on the vast Goldsworth private estate which, in theory, should be prime SDP territory and all the parties are putting the most effort into winning. But, as in the rest of the country, the SDP could have a problem in actually winning seats because its support is evenly spread rather concentrated in particular areas.

There is certainly a protest vote in Woking—particularly as the Liberals have found, at a local level. But the protest seems to be fairly muted. Unemployment, which has trebled since 1979, is a real problem for school-leavers, but it is still relatively low.

The Conservatives have run the council pretty much as Mr Michael Heseltine, the Environment Secretary, would like all councils to do. Rate increases have been kept to under 10 per cent, staff numbers cut, and council houses sold. The Tories are campaigning in the local election as the party of "good housekeepers," and a fair proportion of the electorate almost certainly share the Tories' preoccupation with keeping rates down.

Even so, economies have produced dissatisfaction. The cuts in refuse collection are a particular grievance. School closures, though not the borough council's direct responsibility, are a source of concern, so is the state of the roads.

The SDP, which is fighting both the Labour seats which are up for election, is also hoping to pick up support from former Labour voters unhappy with the way the party is going. The Social Democrats claim that in the council estates there is widespread concern about the state of the Labour Party, but the local Labour Party, which is not itself a particular fan of either Tony Benn or Ken Livingstone, says this is less of an issue than a year ago.

Even so, some Labour workers admit that the SDP could prevent their making gains they might have hoped for in marginals wards.

But on Thursday the outcome could depend as much on what is happening in the South Atlantic as on any local issue.

One Labour councillor says that until a month or so ago he thought the Alliance might do quite well in Woking. The Falkland Islands crisis, he says, has changed all that. Unlike neighbouring Elmbridge, where one Tory candidate put out a pamphlet wishing the Task Force "God Speed," all the parties have tried to fight the election on local issues.

## Stevenson to head training board

By Our Industrial Correspondent

THE Engineering Industry Training Board has appointed Mr Ronald Stevenson, 56, as its new director.

Mr Stevenson, a chartered engineer and fellow of the Institution of Mechanical Engineers, joined the board in 1965 and has been head of corporate planning since 1976. His appointment follows the early retirement on health grounds last year of Mr Joe Moon.

Since then Lord Scanlon, the board's chairman, has acted as chief executive. His own term of appointment expires in July, and there is mounting interest in the question of his successor.

Engineering employers, who now meet the operating costs of the board—previously paid by the Government—are insisting that the next chairman should be from the employers' side.

### Wages complaint

MINIMUM wages for young people with no skill or experience were a major disincentive to employing them, National Chamber of Trade members heard yesterday at their annual conference in Guernsey.

The conference carried unanimously a motion calling for the minimum age for the full adult wage to be raised to 21.

### Short-time work

SHORT-TIME work is being introduced at Hotpoint Electrical Appliances' Peterborough factory. The 1,000 production workers have been told to stay at home for the rest of this week, because of the high level of stocks. They have been warned that a four-day week will start in June.

### Transport offer

STRATHCLYDE'S TORIES gave their plans in Glasgow yesterday for a better deal for road and rail travellers. Councillor John Mair, the Conservative transport expert, wants short-term car parking increased in inner Glasgow, the same transport grant as exists in England, new bus ticketing arrangements, cycle tracks beside existing roads, and more money being spent on improving railway stations.

### Merger problem

THE INITIATIVE for a merger between the Association of Certified Accountants and the Institute of Cost and Management Accountants (ICMA) has been set back by a poll of ICMA members which showed that 63.2 per cent were against a merger.

### Production cut

A MAJOR cutback in production of colour televisions by GEC-Hitachi is to be implemented at the joint Japanese-UK company's European manufacturing plant at Hirwaun, South Wales. Around 130 temporary staff have already been laid off. The cut is being achieved mainly by asking the plant's 1,800 workforce to take 70 days' unpaid leave over the next 12 months.



# BL's record production of Metros poses a problem

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

HAS THE Metro bubble burst? Have BL's chances of recapturing lost ground in the UK new car market evaporated along with public interest in the little car?

These questions spring to mind because within the space of a week we heard that Metro production at Longbridge was to be cut, resulting in an estimated loss of 500 more jobs, and that the model's share of new car sales dropped below 7 per cent in April.

But BL recoils in horror at the suggestion that the Metro boom is over.

"We are very happy about the share of the small-car sector Metro has been taking—it is simply that that sector has shrunk a little this year," says Mr Peter Johnson, UK sales and marketing director for Austin Rover, BL's volume car subsidiary.

Apparently the failure of the recession to ease up has kept many potential private buyers out of the new car market this year.

So the small-car sector has been reduced from about 21 to 18 per cent of total sales, a phenomenon which has also adversely affected sales of Ford's Fiesta.

But, although Metro is not losing ground against the immediate competition, BL was relying on it to capture 9 per cent of total registrations this year or nearly half the minimum 20 per cent penetration it wants to achieve overall.

This would involve building at least 118,000 Metros for the home market compared with the 10,283 sold last year.

So far, the company shows no sign of wanting to reduce that target or the one for its sales on the Continent—65,000 for 1982 against 24,000 last year. This is not unduly ambitious since 1981 and 1982 are not comparable: the Metro did not go on sale abroad until the spring of last year.

Italy, where the aim is to sell 35,000 Metros this year, and France with a 20,000 target are the major Continental markets.

In that case, why cut production?

The answer, it seems, is that BL underestimated just how efficient the Longbridge workforce would be with the benefit of new, high-technology equipment.

When the speed of the assembly lines at Longbridge was fixed at the beginning of this year, BL assumed output would be on average 94 per cent of the potential.

In the event, the workforce achieved a 98 per cent average and stocks began to build up to unsustainable levels.

As BL's main objective must be to conserve its cash during the present period when survival is in question, something had to be done to cut the cost of financing those stocks.

It was decided, with extreme reluctance on the part of the Longbridge management team which had to consider the impact of the decision on morale at the plant, to reduce the targeted Metro output from 4,270 to 4,150 a week.

If productivity were maintained, that meant more voluntary redundancies, although so far BL has not officially spelt out in detail just how many.

Back in 1977, Longbridge produced 158,000 cars with a manufacturing workforce of 19,400. Currently, the rate of output is an annual 250,000-255,000 vehicles, but the workforce is down to 11,000 and dropping. The unions expect the total to be well below 10,000 by the end of the year.

It could be seen as a classic case of people working themselves out of a job by becoming more efficient. BL prefers to say that those who left Longbridge did so voluntarily and "those remaining are keeping themselves in their jobs by working efficiently."

At the sharp end of the business, dealers reported over the weekend that demand for the Metro remained lively

## Outlook fine for solar markets

By Sue Cameron

WORLD markets for solar energy equipment are now beginning to show signs of speedy development, according to Mr A. G. Hardacre, manager of the Department of Energy's solar heating research and development programme.

Mr Hardacre, writing in Coal and Energy Quarterly, the journal of the National Coal Board, says that in the first six months of last year shipments of solar collector equipment in the U.S. alone were worth about £100m.

He estimates that the annual market for solar collectors in Japan is now worth about £50m. The total UK market for solar heating systems—including collectors—is probably just over £10m a year.

The world market for photo-voltaic devices—which convert solar radiation directly into electricity—has been "growing rapidly" and will probably exceed £50m this year.

He admits that the use of solar energy is unlikely to save "more than a few per cent of the energy budget of most Western countries by the year 2000."

But, Mr Hardacre points out, a tiny percentage can represent considerable sums of money.

## Tory MP backs bid to buy state factory

A TORY MP is backing the bid by a consortium of South London businessmen to buy the factory they lease from the Ministry of Transport.

Mr Nigel Forman, MP for Carshalton and Wallington, has written to the Department of Transport asking for a delay in the sale of the factory to allow the consortium time to raise the money.

The factory in Beddington, Surrey, is due to go under the auctioneer's hammer on May 18 and the group fears it may not be able to renegotiate its leases with a new owner.

Mr Jim Palmer, managing director of Kingsdown Instrument Company, one of the threatened companies, said: "If the buyer decide he wants to use the factory himself instead of leasing it out, then we will all have to go. We want the auction postponed to give us time to raise the money. We learnt only a fortnight ago that the factory was up for sale. No-one from the Department of Transport has had the decency to tell us."

Mr Forman said "that as soon as he heard the story he wrote to Mrs Lynda Chalker, a junior Minister supporting Mr Palmer.

"They seem to have had a raw deal and been given little notice of the sale. We made a pledge in the last Conservative manifesto to help small business and here's a case where we can do so," said Mr Forman.

The Department of Transport says the factory and surrounding land was bought for highway purposes but was now surplus. A spokesman said there was no obligation to tell the leaseholders the factory was up for sale. The position was made clear to tenants when they took over.

# British Airways launches £2m advertising campaign

BY ARTHUR SANDLES

BRITISH AIRWAYS has launched a £2m advertising campaign, which opened on television last night, aimed at wooing the business community into flying the flag.

The campaign, the first the airline has run on such a scale, aimed specifically at the business traveller, will contrast the horrors of Arab bazaars and Manhattan traffic with the calm *relaxation of a club or first-class* gin-and-tonic and friendly smile.

BA research in the past year has shown that whatever experimenting passengers might want to do on the way out to a destination, on the return flight they want to get back to the British way of doing things as rapidly as possible.

The airline's agents, Foot, Cone and Belding, will play on this desire.

The research has split air passengers into three types: the over-50s, who are set in their ways and put comfort above all at one end, and the inexperienced newcomer who flies BA for reassurance at the other. In the middle is the 30-40-year-old experimenter who simply wants to boast about having flown them all.

Business travel is one of the few relatively stable areas of the travel market at the moment, and airlines are becoming increasingly vigorous in their competition for it.

"Businessmen are profitable passengers because, although we offer them more service and greater flexibility of travel, they are prepared to pay for it.

"Therefore we decided on a campaign aimed specifically at them," says Mr Terry Coates, BA advertising director.

# BCal fights for West coast flights

*By Our Aerospace Correspondent*

BRITISH CALEDONIAN, the independent airline, today starts its fight for a *permanent licence to fly the* Gatwick (London) to Los Angeles air route, left vacant by the collapse of Laker Airways earlier this year. It is being opposed by British Airways, which already flies the route (from Heathrow) but which believes that the available traffic is insufficient to justify two British airlines as well as two U.S. airlines (Pan American and Trans World Airlines).

British Caledonian has already been granted temporary rights to fly the Gatwick-Los Angeles route through the summer, starting later this month. If it is denied the route in the licence hearings now beginning, it has agreed to quit immediately.

It hopes the Civil Aviation Authority, which is conducting the hearings in *public today, will be convinced* that there is room for a second permanent British carrier and grant B-Cal the licence.

The hearings are expected to last four days at least. The Authority will then give its verdict. If it decides against British Caledonian, the airline will appeal to the Secretary for Trade.

# Why travellers fly first class

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE MOST COMMON reason for business air travellers to buy first-class tickets is that they get more space and comfort aboard the aircraft.

Other benefits, such as improved meals, faster check-in, and special private lounges, while appreciated, do not rate anywhere near as highly in the list of businessmen's preferences.

These findings emerge from a study by British Airways into reasons why some travellers, or their companies, are prepared to pay the higher fares required for first-class travel. It is now published as a booklet entitled First-Class: Who Travels in Style, and Why.

The survey shows clearly that the world's top travellers appreciate most of all the extra seat comfort (24 per cent) and the associated extra space of the first-class cabin (20 per cent), with more room to get up and walk round, and the additional luxury of separate toilet facilities.

The personal service that goes with first-class travel is appreciated by 12 per cent of the sample, while 15 per cent cited the "isolation and quiet" as one of the main reasons for flying "up the front" of the aircraft.

For the rest, first-class meals were cited by only 5 per cent of the sample as an attraction, while sleeper-seats, quick check-in and executive lounges also rated only 5 per cent. Faster boarding and shorter queues at airports rated only 4 per cent each.

Other reasons cited for first-class air travel included need for top executives to reach their destinations in fit physical and mental condition to work, while others said that this factor was becoming increasingly regarded as a worthwhile company expense.

The booklet, *available from* British Airways, is one of the most complete investigations into first-class air travel on long hauls yet undertaken, with much advice to passengers on how to travel, and on how British Airways treats its passengers, at the higher fares.

Mr Don Ford, BA general manager of market development, says that the survey found in particular that passengers liked to fly home first-class, even if they flew out in a cheaper class.

"After the rush and worry of a business trip, a first-class flight really restores their feeling of well-being, and passengers interviewed at Heathrow Airport had a positive view of the entire experience."

# Lords review Lloyd's Bill today

BY JOHN MOORE, CITY EDITOR

THE LLOYD'S BILL for improving the insurance market's self-regulation comes before a House of Lords select committee today for review against a background of mounting opposition to key parts of the legislation by Lloyd's brokers and underwriting agents.

Four large Lloyd's brokers have mounted a parliamentary petition, which will be heard by the Lords, in an effort to stop legislation requiring them to sell off their shareholding links with underwriting agents, the groups which run underwriting syndicates.

Parliament insisted on the move because of conflicts of interest.

The group is led by Alexander Howden, part of Alexander and Alexander of the U.S., the world's second largest broker. Other brokers challenging the legislation are Stenhouse Holdings, Minet Holdings and C. E. Heath.

A group of five underwriting agents also oppose this part of the legislation in a separate petition.

Four petitions have been lodged against the Bill on other aspects of the legislation.

Two oppose a clause granting a new Lloyd's council legal immunity from suits for damages by its members and two are opposed to a clause classifying members of Lloyd's into "working" and "external" members.

Attention is expected to focus during the committee readings on a major row which has developed in the Lloyd's market in the past few weeks. The clash over placing of Qantas aviation insurance business in the Lloyd's market this year has caused Lloyd's to set up a top-level inquiry after complaints in the market.

Lloyd's is studying the role of a broker at Alexander Howden Group, which offered to place the aviation business of Qantas at 20 per cent below the previous year's insurance rates.

The quote to Qantas was made after the Howden broker had consulted one of Howden's top underwriters, Mr Ian Posgate, who offered to lead on the underwriting of risk.

The market opposed the move and prevented Mr Posgate, a marine insurer, from leading on the business. The aviation insurance market in London also resisted the move by Howden to reduce the rates.

Howden had to meet the difference which it quoted to Qantas and the rates insisted on by underwriters out of its own funds. It paid about $600,000 (£331,490) to underwriters.

# Heritage taxes 'against national interest'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

*HEAVY CAPITAL taxation* which penalises the owners of stately homes and other "heritage assets" are against the national interest and should be reduced or abolished, says a paper published by the Institute of Economic Affairs today.

Dr Barry Bracewell-Milnes, an economic consultant, says that private owners can often maintain buildings of national importance more cheaply than the state.

Moreover, the owners enjoy the benefit of ownership which *cannot be enjoyed by anyone else if the asset passes to the* state. The benefits of ownership may be more important for some people than the benefits of consumption, he argues.

*Such people* spend a considerable portion of their incomes in the upkeep of their properties, so that their spending power in other directions is reduced, he points out.

"The owner of a substantial town or country estate who feels he has been entrusted with a living entity embodying part of the nation's history, art *or countryside, lies under a heavy obligation, not the less* real for being self-imposed. His spendable income is reduced, not increased, by his ownership of heritage assets, because of the requirement of funds for their upkeep," Dr Bracewell-Milnes says.

Capital taxes have been exceptionally heavy in the UK, and reliefs for heritage assets have been too late and too grudging to prevent the destruction of buildings and the dispersal of their contents "on a scale not experienced since the *dissolution of the monasteries.*"

"*Confiscatory taxes on heri*tage assets destroy a precious and irreplaceable asset in the knowledge and dedication of historical owners. No one else can look after the property so well or so cheaply. The losers are not only the owners but the rest of the community as well."

*Land and Heritage: The public interest in personal ownership. By Barry Bracewell-Milnes. Hobart Paper 93. £3. Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB.*

# DHSS slowness delays pension benefit payments

BY ERIC SHORT

COMPANY pension scheme administrators are facing problems over the payment of various benefits to members because of the slowness of the Department of Health and *Social Security in giving them* the necessary figures.

This is causing delays of several weeks in paying the benefit and has led Bacon and *Woodrow*, a leading firm of consulting actuaries, to provide a series of calculating aids. Its clients can make the required complex cauculations easily and accurately, and so avoid delay.

One major problem occurs when employees change jobs and are entitled to a refund of their pension contributions.

The administrator cannot make the payment until he knows the amount to deduct to buy back the equivalent earnings-related state pension. Another problem occurs in *paying widows' pensions.*

At the start of the new state scheme in April, 1978, the Department pledged to give company schemes which contracted-out the necessary figures in a short time.

But experience has shown it takes weeks rather than days to provide the figures. The Civil Service strike and the introduction last year of a new computer for the Department has made the problem worse.

The problem is less serious if the administrator has notice of benefit payments, such as impending retirements. But it *is of particular concern* when members die in service to pay widows' pensions as soon as possible.

Many pension consultants are becoming increasingly concerned over delays by the Department. Like Bacon and Woodrow they are making their own calculations and providing adjustments later, on receipt of *the official figures.*

# U.S. cotton growers open European office in London

FINANCIAL TIMES REPORTER

COTTON INC, which carries out marketing and research activities for U.S. cotton producers, has opened a European office in London to service textile customers in Britain and on the Continent.

The organisation is funded by the American industry, which accounts for about a fifth of the world's cotton output.

In 1979-80 the U.S. exported a record 9.2m bales, more than half of its production. Efforts are being made to step up sales abroad, and the organisation plans to open a Far Eastern headquarters in Osaka, Japan, later this year.

Cotton Inc maintains links with, but works independently of, the International Institute for Cotton, a Brussels-based body which promotes cotton on behalf of the main developing country producers. IIC maintains *its own research facilities* at Manchester in the UK.

Cotton Inc has made contact with Marks and Spencer and hopes that company will persuade its suppliers to specify U.S. cotton. The Americans are planning to approach more than 60 big textile organisations throughout Europe on a regular basis.

They *also expect to work with* textile equipment manufacturers to make sure machinery continues to be developed to process cotton.

# Vauxhall may expand

VAUXHALL may become the first British car company to increase its workforce after years of cutbacks by the country's car makers.

The company says the success of the Cavalier range has been beyond its expectations. In April the Cavalier took 7 per cent of the *British* market.

The car is manufactured at Luton but demand is so high that Vauxhall is having to import 40 per cent of the vehicles from its Opel sister plant in Belgium.

After years of losses, Vauxhall is set to make an operating profit this year—and a net profit in 1983, Mr John Fleming, the chairman, said yesterday. The company was already recruiting for jobs lost through natural wastage.

# National Bus route map

A MAP showing the principal local bus links between the main towns in England and Wales has just been published by the National Bus Company, who think that many people are likely to be surprised by the "continued extensiveness" of the network.

Through its 35 subsidiaries, NBC operates 15,000 vehicles on both urban and rural bus services in most parts of England and Wales. The map gives addresses and telephone numbers of all the subsidiaries.

The map costs 10p and is available from local bus company offices, tourist information centres and points of entry for tourists. It is also being distributed overseas.

# UK NEWS—LABOUR

## Nalgo will vote on Tebbit Bill campaign

By Our Labour Staff

A MOTION from the executive of the National and Local Government Officers' Association pledging support for the TUC's campaign against the Government's Employment Bill is to be put to the union's annual conference in Brighton next month. It urges members to "respond readily to calls for action."

Three amendments to this, along with a motion from Strathclyde, seek to make explicit that it may be necessary to disobey the proposed law. Metropolitan district council is calling for total non-co-operation by all unions, including refusal to appear before courts, and for a co-ordinated campaign of industrial action by all unions if any union or member is taken to court under the legislation, proposed by Mr Norman Tebbit, Employment Secretary.

The executive motion calls on the Government to adopt the TUC's alternative economic strategy. One amendment calls for "concerted industrial action to rally the membership in opposition to all anti-union government policies as a whole." Another says this should not fall short of preparing members for "an absolute challenge to this Government's policies."

Other motions and amendments call for non-co-operation in the Youth Opporunities Programme, the proposed new training scheme, applications for private hospitals and allocation of health service pay beds, and the "privatisation" of public services.

This week the results are expected of a ballot of Nalgo's 780,000 members in which they are believed to have rejected affiliation to the Labour Party.

Robin Reeves adds: Trade union co-operation in any Labour government incomes policy was ruled out at the Wales TUC's annual conference in Llandudno at the weekend.

The conference called for policies for economic recovery under a Labour government, which included EEC withdrawal, nuclear disarmament, import controls, and planned public investment and expenditure. It specifically excluded any planning of incomes.

Mr George Wright, the Wales TUC general secretary, said his general council took the view that there could only be a place for an incomes policy as part of a "full-blooded" Socialist approach.

Mr Derek Hodgson, of the Communication Workers Union, stressed that there was little chance of restoring full employment if the election of a Labour government was followed immediately by a wages explosion.

Mr David Plante, a General and Municipal Workers' Union leader, said that after their experience of the past three years, the low-paid had had enough of free collective bargaining.

Mr Ken Thomas, general secretary of the Civil and Public Services' Association, said research on incomes restraint under the last Labour administration had shown it had been ignored by the private sector.

## Docks, rail and hospitals may face disputes soon

BY BRIAN GROOM, LABOUR STAFF

THE COMING WEEK could decide whether major disputes develop in the docks, railways and health service.

The dockers and health workers pose direct challenges to the Government, which wants to avoid domestic clashes as it deals with the Falklands crisis.

Dockers' leaders meet Mr David Waddington, junior Employment Minister, today to put their case for the national dock labour scheme to be extended to all ports and wharves.

The Transport and General Workers' Union plans a national dock strike from Monday if the Government does not agree to this.

Monday is also the day the TUC Health Services Committee meets to decide on industrial action over the 4 to 6.4 per cent pay offers to 1m National Health Service workers.

The National Union of Public Employees will announce this week that a majority of its 300,000 health service members have voted for industrial action.

The Confederation of Health Service Employees has begun action, but union leaders believe addition of other TUC unions would quickly reduce hospital services to accident and emergency cases.

Lord McCarthy and his two colleagues in the Railway Staffs National Tribunal are expected to deliver their judgment this week, possibly on Friday, on the flexible rostering issue. The outcome may bring more industrial action, by a variety of avenues.

BR executives believe the tribunal's terms of reference will make it difficult for Lord McCarthy to rule against its case that the drivers' union Aslef should move from its eight-hour day and agree to flexible seven-to-nine-hour shifts.

Aslef is unlikely to agree to this and may call strikes again, if BR attempts to impose them. It may refuse to co-operate even if Lord McCarthy refuses to back a national agreement and recommends that rosters be settled locally, a recommendation unlikely to satisfy BR.

If the issue remains unresolved and BR refuses to make a pay offer this year as a sanction, it could face a dispute with all three unions.

If it makes offers to the National Union of Railwaymen and the Transport Salaried Staffs Association, but not Aslef, it would provoke another dispute with the drivers.

The NUR has already threatened strike action over proposed workshop closures, and the Confederation of Shipbuilding and Engineering Unions, which also has members in British Rail Engineering, meets tomorrow to decide its response.

The planned dock strike presents the biggest immediate threat for the Government.

Even though the TGWU seeks extension of the present dock labour scheme, established in 1967, to avoid reopening the controversy over the unfinished status of Labour's 1976 Dock-work Regulation Act, the Government would face fierce criticism from backbenchers and the non-scheme port employers if it gave in.

Mr Waddington's brief today is to "clarify" the dockers' demand. The meeting will be followed tomorrow by a recalled meeting of the TGWU Docks and Waterways Committee.

## Call for tough line on shipping redundancies

By Ivo Dawnay, Labour Staff

LEADERS OF Britain's 40,000 seamen face pressure for tough action to halt job losses. Two motions to the National Union of Seamen's biennial general meeting in Tenby, later this month, call for radical measures.

The motions, put by the Harwich and South Shields branches, demand immediate official backing for action against any companies trying to transfer ships from the British flag fleet or to impose redundancies.

They also seek: the stopping and occupation of any threatened ship; official strikes to halt other ships owned by the same company; the blacking of goods and picketing of depots owned by the company or any other company to which blacked goods are transferred.

Though the motions are unlikely to win the backing of the conference, their militant tone reflects mounting anxiety among the union's 40,000 members over the rapid decline in jobs.



## Insurance staff may reject 9%

By Brian Groom

LEGAL AND GENERAL insurance company faces a renewed threat of industrial action by half of its 5,000 staff over a pay offer which would raise salaries by 9 per cent.

Action planned to begin last week was deferred while the Association of Scientific, Technical and Managerial Staffs advisory committee at the company considered the second "final" offer.

The committee has refused to back acceptance and the offer is going out to 2,600 members in a ballot without recommendation.

Industrial action will begin on Monday if the offer is rejected and sanctions are supported. Initially, these are likely to involve a work-to-rule and refusal to work by telephone.

Mr James Terry, ASTMS divisional officer, said there could be walkouts and a "really bloody dispute" if the management carried out threats to discipline those taking action it considered unacceptable.

The Bank of England will provoke a "very serious reaction" if it offers rises of 4 per cent to 4,200 employees, Mr Ray Shuttleworth, general secretary of its staff association, has warned.

A claim for 9.5 per cent rises and another three days' holiday from July 1 has been made by the Bank of England Staff Organisation, following the English clearing banks' settlement of 8.5 per cent and longer holidays.

The Bank of England Staff Organisation is thought to be unique in the City, because its members are caught up in public-sector cash limits. An offer not greatly above the government 4 per cent pay provision is expected, though it may be as high as the 5.9 per cent Civil Service arbitration finding.

# TECHNOLOGY

EDITED BY ALAN CANE



# Bath feasts on solar arrays through to the 1990s

BY MAX COMMANDER

EUROPE leads in the design and manufacture of photo-voltaic generators in space.

It has now become a question of the "tail wagging the dog." Some years ago the space scientists thought about the satellite first and how to energise it second.

Now it is the other way round. How do we provide energy for a satellite first say the scientists.

Sorting out the solar cells; how to launch the growing arrays for satellites has become big business with a variety of European companies involved.

Today, a symposium in Bath involving Nasa, the European Space Agency, and almost all of the contractors—BaE, Dornier, Lockheed, the Hughes Aircraft Company and speakers from Britain, the Netherlands, France, Norway, and West Germany, among others, will combine to talk about solar arrays through the 1990s to the year 2000.

As a foretaste of the solar array feast at Bath, British Aerospace has unveiled some of the work it has been conducting for the Space Telescope due for launch in 1985.

The work is all very impressive. Clean rooms and constant vacuuming should ensure not a speck of dust will enter the loading bay of Columbia.

But as Reg Fox, Project Manager for the Space Telescope solar array says: In the 1960s we were able to stick the solar cells around the Ariel, Intelstat, Comstar satellites. We could carry the cells around the building without trouble and just stick them to the satellite.

"Now we are involved in a solar array of 356 square feet with 48,760 solar cells. At one G it would fall apart and we have had to design a sophisticated water bed to support the arrays for testing."

The solar arrays from BaE are flimsy but have a design life for the telescope of five years.

So one talks about electrical output. BaE is using 4x2 cms cells which, the company says, have a start life power output of 5 kW. But radiation in space and the odd hit from micro-meteorites will, by the end of the five years, reduce this to 3.7 kW.

Degradation is a horrible word but this is what today's space technology is about and, therefore BaE has designed its solar panels and associated engineering on the basis that the astronauts can unbolt the solar panels, stow them away in the Columbia bays, return them to Earth and at Filton they will be refurbished.

Meanwhile, BaE will have constructed a few more solar panels for the next launch—all part of an ongoing contract.

Of course, there are problems. Marrying the work of British, French, German companies, etc, is not easy. At least, the Americans have specified one spanner for the astronauts to unbolt the solar arrays.

## Going rate

Producing electricity in space is not cheap. A 4 x 2 cm cell costs about £25 to produce, but, as BaE experts point out, the cost of the components is not the real point; one should look at the cost of generation.

The figures become a bit frightening. About two to three hundred thousand pounds per kilowatt is the going rate at present cell size. Efficiencies obviously have to be raised. At present the experts are talking about anything between 9 and 14 per cent efficiency.

## Nuts and bolts

With the present state of technology in the field an optimum of 10 x 10 cms for cells seems obtainable, but one BaE expert says that the U.S. is, "optimistically," talking about solar arrays of 100 kW in the 1990s and one megawatt by the year 2000.

The BaE people are a bit conservative about these forecasts. The terrestrial test problems are enormous, they say.

But they are enthusiastic about the Space Telescope. One project man said: "Thank God this is one project that Reagan has not killed. We are all involved in the nuts and bolts nitty gritty of space technology. Our astronomer friends have been waiting for this breakthrough since Galileo. It is costing a lot of money but it might tell us where we came from and where we are going to."

The Bath symposium will be the third devoted to photo-voltaic generators, previous ones having been held in Noordwijk and Heidelberg, and complements similar solar energy conferences sponsored by the EEC but restricted to terrestial applications of solar energy.

This third event is sponsored jointly by the Department of Industry, the Royal Aircraft Establishment and the European Space Agency.

As Alan Dollery of the RAE at Farnborough and chairman of the organising committee points out, Bath is a particularly appropriate place. The conference will be talking about the use of solar energy through the 1990s—following in the steps of the Romans who 2,000 years ago developed a rival technique to harness geothermal energy to heat their bath water.

A fitter puts the finishing touches to the primary deployment arm mechanism which will be mounted on the solar array drive of the space telescope. The mechanism has been manufactured by Contraves of Switzerland and is designed to ensure that the solar array points constantly towards the sun. The sub-assembly from Dornier in West Germany is an adapter which will allow the complete solar array arm to be disconnected and replaced in orbit by the astronauts


## ..and sunlight powers the Bahrain pumps

BAHRAIN has a surfeit of sunshine and oil and, therefore, it seems appropriate that a filling station should be solar-powered. This one in Bahrain has its pumps, some lighting, its refrigerator and battery charger solar powered. The nice point is that sheikhs or other users are made aware of the sunlight by the sign that tells them that the station is solar powered. The Bahrain National Oil Company points out that design and construction was carried out in house by its engineering staff.

# How to manage energy use

THE COMPLEXITY of managing energy consumption under the regime imposed by electricity board contracts which penalise customers for exceeding certain peaks, has prompted the increasing use of a computerised system offered by Square D, a U.S. company with a subsidiary in Swindon, Wilts.

For example, a large supermarket with a bank of freezers for frozen foods may find that these are all activated at about the same time by thermostats, pushing electricity consumption above the desired peak.

## Penalised

Square D points out that its system will avoid this by phasing the use of the freezers and, if necessary, cutting out other non-essential power use for a short time to avoid exceeding the set limit.

Another simple use is to programme the Watchdog to maintain a constant level of light in retail premises during a working day: reducing electric light during naturally light periods, and increasing it when necessary, probably later in the day.

The company said: "It is unnecessary for companies to be penalised in this way, and the pay-back period on this investment is normally between nine and 12 months."

The system, which ranges in size from eight to 64 loads, is said to be simple enough for unqualified people to programme it, and can be linked to a printer or another computer system for monitoring.

The company points out that Britain lags behind the U.S. and other countries, notably Ireland (where power peaks tend to cause problems), in the use of such systems.

The cost of the eight-load Watchdog is around £1,400, and can be expanded when necessary with the addition of more capacity.

LORNE BARLING

## Gas check

A clip-on regulator for butane gas bottles, called the Gaslow, has been designed by Hodd, High Street, Egham, Surrey (0784 31979). It can be fitted to the high pressure side of the system to check for leaks in the complete installation

# BUSINESSMAN'S DIARY

## UK TRADE FAIRS AND EXHIBITIONS

| Date | Title | Venue |
|---|---|---|
| May 4-7 | Home and Contract Textiles Show (01-385 1200) | Olympia |
| May 8-10 | Optrafair (01-405 8101) | NEC, Birmingham |
| May 9-11 | British Craft Trade Fair (0282 867153) | Exhibition Centre, Harrogate |
| May 11-13 | Microcomputer Show (09274 28211) | Wembley Conference Centre |
| May 14-18 | British Music Fair (01-730 2628) | NEC, Birmingham |
| May 16-19 | London Furniture Show (01-385 1200) | Earls Court |
| May 16-20 | International Contract Furnishing and Interior Design Exhibition—INTERIOR DESIGN INT (01-540 1101) | Olympia |
| May 18-21 | International Exhibition and Conference for the Pharmaceutical, Cosmetics, Toiletry and Allied Industries—INTERPHEX (01-747 3131) | Met. Exbn. Hall, Brighton |
| May 19-20 | Direct Marketing Fair (01-251 3546) | Kensington Exhibition Centre |
| May 19-21 | Chelsea Flower Show (01-834 4333) | Royal Hospital, Chelsea |
| May 24-28 | International Heating, Ventilating and Air Conditioning Exhibition EXPOCLIMA/HEVAC (021-705 6707) | NEC, Birmingham |
| May 24-31 | World Wine Fair and Festival (0272 213381) | Bristol Exhibition Centre |
| May 25-28 | International Word Processing Exhibition and Conference (01-405 6233) | Wembley Conference Centre |
| May 29-June 6 | Manchester Motor Show (0602 51202) | Belle Vue |
| May 30-June 2 | Consumer Electronics Trade Exbn. (01-486 1951) | Earls Court |
| June 1-4 | International Wine and Spirit Trade Fair (021-705 6707) | Olympia |

## OVERSEAS TRADE FAIRS AND EXHIBITIONS

| | | |
|---|---|---|
| Current | Fast Food and Catering Exhibition (01-935 8200) (until May 5) | Dubai |
| May 3-6 | Offshore Technology Conference and Exhibition (01-486 1951) | Houston |
| May 4-7 | Trade Fair for Clothing Textiles—INTERSTOFF (01-734 0543) | Frankfurt |
| May 6-11 | KORTEX 82—Korea International Textile Machinery Exhibition (021-705 6707) | Seoul |
| May 11-14 | SITEV 82 International Exhibition of the Suppliers of the Vehicle Industry (Geneva (4122) 32.98.08) | Geneva |
| May 18-22 | International Clothing Machine Fair (01-409 0956) | Cologne |
| May 19-23 | South East Asia's International Machine Tools Exhibition—MATEX (01-661 7688) | Singapore |
| May 25-27 | Europe Software Exhibition (01-486 1951) | Utrecht |
| May 25-29 | International Wine Exhibition (0727 63213) | Basle |
| May 30-June 4 | National Textile Industry Trade Fair—FENIT (01-486 8686) | Sao Paulo |
| June 3-10 | International Plastics and Rubber Exhibition (01-439 3964) | Paris |

## BUSINESS AND MANAGEMENT CONFERENCES

| | | |
|---|---|---|
| May 4-6 | IPM: London Personnel Management Conference (01-946 9100) | Royal Lancaster Hotel, W8 |
| May 4-8 | Institute of Metal Finishing: Annual conference and exhibition (021-622 7387) | The Old Ship Hotel, Brighton |
| May 6-7 | ESC Conference—World Coal in the 1980s (057282 3711) | Bowater Conf. Centre, SW1 |
| May 7 | City Seminars: Financial futures—Setting up a futures operation (01-629 8863) | Carlton Tower Hotel, SW1 |
| May 11-12 | FT Conference: Gold and the International Monetary System (01-621 1355) | Montreux |
| May 11 | Oyez IBC: SSAPs Accounting standards in practice (01-242 2481) | Carlton Tower Hotel, SW1 |
| May 12 | The Textile Institute: New dimensions in knitted fabrics (061-834 8457) | Holiday Inn Hotel, Leicester |
| May 13 | IAG Institut d'Administration et de Gestion: Financial analysis and financial markets (Belgium 010 41.31.81) | Louvain |
| May 13-15 | Gordon Simmons Research: Efficient retail management in the changing 1980s environment (01-240 0256) | Grand Hotel, Eastbourne |
| May 14 | Dun and Bradstreet: Purchasing from abroad—for commercial executives buying from abroad (01-247 4377) | Cafe Royal, W1 |
| May 17-21 | Institute of Personnel Management Selecting the right candidate (01-946 9100) | Whites Hotel, W2 |
| May 19 | The Filtration Society: Cost efficient filtration (01-686 6330) | Cora Hotel, WC1 |
| May 20-21 | McGraw Hill Conference Group: The Platt's 1982 Petrochemical Conference (New York (212) 997 4931) | Amsterdam |
| May 24-25 | The Economist: Video Conference—Programming and Finance (01-670 5400) (part of International Video Week) | National Film Theatre |
| May 24-25 | AMR International/Euromoney: Financial techniques (01-262 2732) | London Press Centre |
| May 27 | CBI: Statutory sick pay and self certification (01-379 7400) | Centre Point, WC1 |

*Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.*

# Crane builders beat brute force barrier

BY ALAN CANE

LIFTING TWICE your own weight presents its own special problems as any bodybuilder will tell you. But if you are designing a crane to do just that and to manoeuvre the load at the end of a telescopic boom, you need a great deal more than just brute force.

So it is with understandable pride that Mr Peter Steel, director of marketing and engineering for Coles Cranes, says of his company's Queen's Award: "This was for one of the biggest technological jumps in the crane industry."

Coles "Octag" boom series of mobile (rubber tyred) cranes reach 10 per cent greater height and 30 per cent greater lifting capacity than conventional models.

## Comparison

This means that at the very top end of the range, an Octag crane weighing 72 tonnes and ballasted with a further 20 tonnes can lift and move 140 tonnes of load.

By comparison, a small crane truck capable of lifting 20 tonnes will itself weigh 22 tonnes.

Traditionally, crane builders have used a rectangular box section boom. It is simple, strong and easy to manufacture.

But at the top end of the range, this method of construction means that too much weight is concentrated in the boom.

## Buckling

It is an old problem and all crane manufacturers have their own solutions. The design constraints are that the boom must be resistant to local buckling (which means, effectively, that if you try to save weight by cutting holes or using thinner sheet, you have to reinforce to maintain rigidity) and that manufacturing costs must be held down.

Coles' solution, developed over 10 years (and now safely protected by patent), is an octagonal structure involving three element side plates. Strength is preserved and weight is saved in the top and bottom flange.

Furthermore, this structure allows ample space for the telescopic mechanism of the boom.

Coles, with a current £100m turnover, is exporting about 90 per cent of its production. Depending on how the sums are calculated it ranks number three or five among world crane makers.

# Jobs scheme attacked

THE CONSTRUCTION industry is becoming increasingly angry about the impact of the Youth Opportunities Programme on its workload.

As concern grows, industry leaders are preparing to ask ministers to differentiate between the sort of work suitable for inclusion in the YOP programme and those contracts which should go out to tender to the industry in the normal way.

The outgoing president of the National Federation of Building Trades Employers, Mr Alan Ure, struck a sour note last week when he addressed the annual general meeting of the NFBTE's Liverpool region.

The Manpower Services Commission's Youth Opportunities and Community Enterprise Programmes, he said, were a matter of grave concern to NFTBE members: "We now have overwhelming evidence," Mr Ure added, "of the damaging effect which these well intentioned but badly selected schemes are having upon the trading operations of small- and medium-sized builders."

It seems that the NFTBE's original understanding of YOP work experience schemes was that youngsters, otherwise unemployed, would gain experience on building projects which would not otherwise be carried out — community projects like village halls and church repairs.

Now, in Merseyside alone, the *NFTBE estimates* that its members have lost £2m worth of work in recent months—work which Mr Ure describes as their "traditional and rightful preserve." In the country as a whole, the NFTBE says that 150 apprentices are either being laid off, or not being taken on, because there is not suitable work for them to do.

The NFTBE's annual report, also out last week, noted that the continuing recession had resulted in a marked decrease in craft recruitment and training. From March 1, 1981 to February 28, 1982 registrations lodged with the National Joint Council for the Building Industry totalled 9,331 for England and Wales, compared with 11,852 in 1980-81.

"How is our industry supposed to maintain its commitment to training," said Mr Ure, "when work, which is quite obviously suitable for the purpose, is being hived-off to meet some cosmetic work experience need?"

The NFTBE is seeking to bring the problem to a head on Thursday week, May 13, at a meeting with the Under-Secretary for Employment Mr Peter Morrison. It aims to present Mr Morrison with the facts, and put forward some positive proposals for a more harmonious relationship with the MSC in future.

Details of the NFTBE's com*plaints are obviously being kept* under wraps until then. However, there is criticism within the industry of YOP involvement in schemes such as two- and three-storey school refurbishment projects and the repainting of railway stations.

Other items include:

- A youth club job worth £300,000 of which one-third has gone to the Community Enterprise Programme;
- A cricket school and sports complex with roughly similar financial parameters;
- And a company registered as a charity with something like 100 workers on its books, going for work in direct competition to NFTBE members.

The NFTBE says that there are 29 area boards of the MSC made up of employers, trade unionists, local authorities and education and other interests which should have a monitoring role. The federation says that it is not being consulted in this context.

The MSC, at this point, prefers to wait until mid-month, when it will have seen the NFTBE case. But it is prepared to concede that it is tightening up its own monitoring activities; and the NFTBE makes it clear that, while it supports the principal objectives of the YOP, it is asking for a clear dividing line to be drawn.

WILLIAM COCHRANE

# Foam warning sparks off new controversy

A WARNING about the use of urea-formaldehyde insulation foam—which has been banned as a health hazard in the U.S.—has prompted pointed reaction from the National Cavity Insulation Association.

Mr Owen Luder, president of the Royal Institute of British Architects, is warning his members to seek warranties from manufacturers, suppliers and contractors before using UF-Foam. "Until more is known about the health effects of UF-Foam; I think it is in everyone's interest to exercise a little caution," Mr Luder said.

The National Cavity Insulation Association insists, however, that there is no medical evidence to suggest that the use of UF-Foam in Britain has caused serious illness. It says that British standards of installing UF-Foam are much better than in the U.S.

"If proper procedures are followed then the use of UF-Foam is perfectly safe. It is a pity that the RIBA should have taken this approach without first consulting the industry," said a spokesman for the NCIA.

The use of UF-Foam has been banned by the U.S. Consumer Products Safety Commission which said that in some cases UF-Foam can release formaldehyde fumes into the home.

However, a report by the Health and Safety Executive Council in Britain concluded: "There is at present no evidence suggesting that exposure to formaldehyde has produced cancer in humans.

The NCIA says that there have only been one or two cases where the public has complained that the use of UF-Foam has caused "stinging eyes.""

The Association added that foam installers are required to meet strenuous British Standards governing both quality of materials and the way in which they are installed. "All our members are covered by an extensive warranty scheme."

Nonetheless fears about the use of UF-Foam remain. At least one local authority has been reported to have been considering taking legal action following allegations that UF-Foam has resulted in ill health.

ANDREW TAYLOR

## UK CONTRACTS

# French Kier wins £20m

TWO IMPORTANT hospital contracts and work at the Port of Felixstowe add up to nearly £20m of new contracts for FRENCH KIER CONSTRUCTION.

The first hospital project is valued at £13.2m and is for the construction of the new Homerton District General Hospital. It will comprise two ward blocks, treatment and diagnostic block, service building, ancillary buildings and full external works.

At St. Charles Hospital, London W10, a £3.3m scheme is for the construction of extensions to form a psychiatric and psychogeriatric unit.

The £2.7m award by the Port of Felixstowe is for the Dooley and Freight Liner Terminals and inclides 5,000 metres of crane beam, railway sidings and 22,000 sq metres of surfacing. Half of the work is in an operational area.

★

R. M. DOUGLAS has won more than £11m worth of new work in the last two months with the bulk of contracts (over £5m) going to its South Wales region, including a £1.32m roadworks scheme near Dyfatty for West Glamorgan County Council.

In the Midlands a further £2.5m includes the construction of a large storage facility for Pedigree Petfoods at Melton Mowbray (value £1m).

A design and build contract to construct a garaging facility at Wandsworth in south London for Mann and Overton is valued also at around £1m.

Despite work being more difficult to obtain in the north, the company says it has nevertheless totalled over £3m worth. This includes advance factories for the Welsh Development Agency in the north west region; a factory extension at County Durham for English Industrial Estates.

★

PART OF a new batch of £10m worth of work won by TARMAC companies is the £6.3m M1 reconstruction section of the northbound carriageway now started by Tarmac National Construction. This involves a 12.2 km stretch which is due to be completed in about six months.

Other companies, including Cubitts, have been awarded more than £4m worth with a £1.8m Sainsbury supermarket at Crosby, Merseyside, being undertaken by Cubitts.

★

NEW WORK for A. MONK & CO. is worth £7.3m and covers civil engineering and building, a pipeline and an oilfield contract.

At Runcorn, the company will construct 3km of trunk road between Sandymoor Lane and the A56 at Daresbury for Warrington and Runcorn Development Corporation at a value of £2.6m. This is a single carriageway in flexible construction incorporating seven structures comprising two railway bridges, canal bridge, road bridge and two subways.

The PSA has placed a £3.3m contract in Northants for the building of a USAFE dependent elementary middle school at Croughton, near Brackley.

★

THE WELSH Rugby Union's new stand and terracing at the National Ground, Cardiff Arms Park, will be undertaken by WIMPEY CONSTRUCTION UK, under a contract worth about £4.35m.

Work starts at once on the project which involves the demolition of the existing South Stand and terraces and the construction of an extension to the existing West Stand to connect to the existing East Terrace — this extension will constitute the new South Stand.

★

ACTING AS agents for the Department of Transport, Cheshire County Council has awarded a £2.35m contract to the UNITED ASPHALT COMPANY (member of the Sir Alfred McAlpine Group) for the resurfacing and repair of 5.3 km of the M56 motorway from the M6 interchange (junction 9) to the Stretton interchange (junction 10) just south of Warrington.

★

TAYLOR WOODROW CONSTRUCTION (Northern) has over £1m worth of new work including an £850,000 job from the CEGB for extending an existing 400 kv switchhouse at Eggborough Power Station, near Selby, Yorks. A £185,000 scheme for Ison Brothers (Newcastle) is for the design and construction of a new small factory on the Hughs Industrial Estate, Blaydon, Tyne and Wear.

## INTERNATIONAL CONTRACT

THAILAND'S National Housing Authority (NHA) has won a $32.6m contract to build housing in the United Arab Emirates, announces the governor, Damrong Latthapipat.

The project calls for the construction of 500 housing units at a cost of around $65,000 each in Abu Dhabi.



# Architects back houseowners

ABOUT 20 per cent of bankruptcies in 1980 involved building contractors and their collapse left hundreds of householders, extending or altering their homes, in the lurch.

Now architects are expressing their concern at the victims' plight and have endorsed their feeling by supporting the new "Bureau Bonded Building Scheme" being launched by the National Home Enlargement Bureau.

RIBA promises that the scheme will enable clients to insure against a builder going into liquidation before completion of work.

Its president, Mr Owen Luder, says: "Our industry has been plagued by cowboy builders and unqualified designers for many years, and this scheme will undoubtedly help to stamp them out.

"A good quality building whether large or small requires both high quality design and high quality construction. By successfully marrying professional supervision with higher construction standards this scheme offers great benefits to the consumer, and I will certainly be urging architects to persuade good builders to join it."

# New advisory body for BRE

THE GOVERNMENT is to establish a new advisory body to assist with the management of the state sponsored Building Research Establishment. Ways of recouping some of the BRE's costs from alternative sources are also to be examined.

The decision announced by Mr Michael Heseltine, Environment Secretary, is in line with recent key recommendations made jointly by the Building and Civil Engineering Economic Development Committees.

The committees' report stressed that the BRE should be retained and that the bulk of the establishment's funds should continue to be financed by Government.

However the "Little Neddies" suggested that part of the BRE's budget might be financed via a construction industry insurance scheme to cover companies against claims for damages. Payments into the scheme could be used to help fund building research.

The new BRE advisory committee will be asked to investigate various ways of providing alternative sources of finance for the research establishment. This examination is likely to include the possibilities for establishing some kind of industry-wide insurance scheme.

Membership of the advisory board is likely to include representatives from a wide range of construction interests. This would be in line with the "Little Neddies" recommendation that closer links should be forged between BRE management and the private sector. The building and civil engineering committees were concerned that too much of the BRE's work has been orientated towards the public sector.

The decision to retain the BRE will be welcomed by many in the construction industry who had feared that the Government might be persuaded that building research should be entirely financed through the private sector. This they believed could threaten both the objectivity and quality of research.

## Around the industry

- G.R.A.B. Resins (Leicester) is the first company to be awarded an Agreement certificate for acrylic floor toppings in the UK (indeed, in Europe, says the company). It now has awards for four of its acrylic industrial floor screed toppings.
- Work has started on Huntingdon and Godmanchester Bowls Club's indoor bowls hall which will be housed in an ARMCO steel framed building erected by H. Boon and Co., of Fordham, Cambs.

  The building will be constructed almost entirely using the particular steel framed system which is characterised by concealed fastener wall cladding and ultra low pitch steel roofing of aluminised steel which carries a 20 year guarantee against corrosion. Brickwork is incorporated into the front elevation.
- The first seminar and forum on phenolic insulation to be mounted by that material's manufacturing trade association, the PFMA, is to be held on May 19 next at Belgrave House, Buckingham Palace Road, London SW1.

  It is intended particularly for architects and other specifiers, fire officers and building managers concerned with energy saving and fire safety. Details on 01-948 4153.
- The first chairman of the new trade federation BACMI is Mr Gordon Lee, managing director of Tilcon. Its highways adviser will be Col W. C. S. Harrison, formerly county surveyor of West Sussex.
- The Cement and Concrete Association is to hold two courses for engineers and technicians concerned with concrete production at its Fulmer Grange Conference and Training Centre in June and July. Admixtures for concrete is from June 21-23; Concrete mix design, July 5-9. More from Press Office 01-235 6661.

# THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

# A clear message—but is it getting through?

## Tim Dickson concludes his series on the attitudes of the Big Four banks to small firms

*"The consensus of opinion is that (bank) managers do not really know about the Government's Loan Guarantee Scheme in great detail or about the grants available in their areas."*

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*"Managers need to go out and get closer to customers, and to see their problems more clearly."*

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.. *"If anything, they (small businesses) feel that they are the 'least favoured' of the banks' customers and come after personal account holders who provide the banks with interest free cash and big businesses which are individually more profitable."*

If these comments had been made by a group of frustrated entrepreneurs, they might carry little weight. But they were not.

The first two quotes come from bank managers themselves —secondees to various enterprise agencies from a major clearing bank who met earlier this year to discuss their experiences and committed their thoughts to paper. The third observation is one of the main conclusions of a confidential and independent study of small business customer attitudes undertaken last year on behalf of another of the big high street banks.

Over the past six months innovations introduced by Barclays, Lloyds, Midland and National Westminster specifically for their smaller corporate customers have been looked at on this page.

With more than 12,000 branches the "Big Four" banks dominate the field and under their corporate umbrellas provide just about every financial service a small company could ask for—ranging from overdrafts and medium term loans to factoring and export finance.

Nonetheless, whenever two or three businssmen are gathered together, the chances are that at least one of them will complain vociferously about the way he and his company have been treated by his bank.

In spite of the small business "units" which all the clearers have established in recent years, the feeling persists among many of those actually running companies that still banks frequently do not treat them sympathetically.

The problem is perhaps that the banks have only turned their attention seriously to the small business sector in the last few years. They therefore still suffer from the legacy of a comparatively large number of old style managers who gained much of their experience in the days before fierce foreign competition and the easing of Credit Controls in 1971.

The response at head office to the sudden popularity of small firms could not possibly filter down to 12,000 branch managers overnight.

The other question which has to be asked is whether the inevitable raising of small businessmen's expectations has been matched by a better understanding in small firms of how the system works and how a company's finances should be controlled. The answer to many complaints, it has to be said, is that the business project seeking support is either hair-brained or unrealistic.

The essence of the banks' small business policies has been to develop the concept of a service which is more than just the provision of money. Broadly speaking there have been three areas of activity: management training; special services; and what may be termed "social responsibility" initiatives such as putting up money to support academic research.

No bank would ever openly admit that its staff was inadequate but all head offices are aware that some of their branches do not have the necessary skills, imagination or knowledge to deal with existing small business customers or individuals starting up for the first time.

One of the Midland's answers to the problem of getting its expertise into the market is the concept of special area offices. These have managers whose sole responsibility it is to look after the corporate business of customers of five or six branches.

Although a major reason for this reorganisation has been the opportunity to cut out overheads, Midland emphasises that area managers are now freed from the time-consuming preoccupations of personal customers and the day-to-day minutiae of running a branch—therefore, so its argument goes, they should be more knowledgeable and sympathetic to their customers.

Rival banks are looking with interest at this strategy but some question breaking the traditional link between customer and local branch.

Barclays and Lloyds, on the other hand, which set up Business Advisory Services (BAS) in 1973 and 1976 respectively, have a different approach. The setting up of BAS is recognition that smaller companies often need and benefit from an overall management appraisal.

Under the scheme a specially trained BAS manager visits the customer for a few days, examines all aspects of financial management, and at the end recommends ways in which performance can be improved.

BAS managers represent only a handful of the banks' total staff but in years to come the effect of BAS training should spread through Barclays and Lloyds.

In some ways the provision of special schemes—although designed to plug gaps in the service—does seem to be counterproductive. There are now literally scores on offer, each of which makes a new demand on the time and concentration of the manager who is already overburdened and is still trying to grasp the implications of what are effectively new guidelines and balance them against the traditional yardsticks that have long governed branch banking. No wonder some do not yet understand the Government's Loan Guarantee scheme, for example.

A frequent cry from anguished entrepreneurs is the failure of some managers to understand their business, particularly in the high technology area where the valuing of intangible assets and research and development work can prove difficult for the layman.

The gap between the financial and technical expert lies at the heart of the debate but it is up to both sides to close it. Small businessmen often seem to forget that money—just like the raw materials for their product—is a commodity which is available from a number of sources and at different and negotiable prices.

# In brief . . .

**ALTHOUGH Parliament has yet to give its final blessing, John MacGregor, Industry Minister with special responsibility for small firms, has now disclosed more details about the proposal for tax relief on contributions to "approved" enterprise agencies.**

**All being well, relief will be given on contributions—which can be in cash or in kind—made after the beginning of April 1982. Companies, partnerships and sole traders will be eligible.**

**A list of "approved" agencies will be drawn up by the Department of Industry. The essential requirement will be that the agency does not "make any payment from income or profit—except for reasonable remuneration, rent or interest payments—to any of its members of management."**

●

**INTEREST by new companies *in the funds set up under the* Government's business Start-up Scheme seems to be keen. Creative Capital Fund, which was launched in January by the British Linen Bank and has now closed at a level of £355,000, reports a "considerable number of enquiries from companies seeking finance."**

**C and M Capital and Management, meanwhile, which spent most of the funds raised through last year's Mercia Venture Capital Scheme on two investments before April 5, is hoping to raise a further £500,000 to £1m with a further launch this year.**

*The British Linen Bank, 4 Melville Street, Edinburgh; C and M, Clarence Chambers, 39 Corporation Street, Birmingham.*

●

**A NEW report on "Innovation in Small and Medium Firms" has just been published by the Organisation for Economic Co-operation and Development (OECD). Based on surveys specially carried out in 13 member countries, together with separate studies and information from interviews, the report analyses in some detail small firm attitudes towards innovation, their innovative activity in various industries, and their overall contribution to technological progress. Copies can be obtained from OECD sales agents or OECD Publications Office, 2 Rue André-Pascal, 75775 Paris Cedex 16, France. Price FFr 68, £6.80 or $15.**

# How to get ahead while others sleep on it


LIKE many energetic entrepreneurs Frank Shane does not always get his eight hours sleep a night—a shade ironic perhaps for a 43-year-old Northern Irishman who has been designing and manufacturing continental quilts with conspicuous success for several years.

Shane, though, is suffering from a problem which other small company proprietors may recognise at this stage of the recession. For having established a significant share of a market dominated by major British companies, he now finds that he is having to use all the flexibilty and innovative ability of a small business to survive the competition's fierce attack.

Shane is managing director of Shanover, which he set up in 1972 with a starting capital of £25. "The idea of making Continental quilts first came to us when my wife went out to buy one in Belfast," he recalls. "She came back to tell me how much they cost, and when I heard this I was convinced it was possible to make them more cheaply. That £25 was the money I refused to give her at that time."

Starting on his own was a very different world from the established business he had been in previously — he was managing director of Burlington (Savile Row) Shirts—but he at least began with the advantage of business and managerial experience.

Working initially from a room in their house, armed with Mrs Shane's sewing machine and material Frank bought from contacts in the textile trade, Shanover went on to challenge major British companies such as Slumberdown, E. Fogarty and Northern Feather which traditionally have dominated the UK continental quilt market.

In 1979 the company moved to its present main site on a small industrial estate at Whiteabbey on the outskirts of Belfast and a year later—with output expanding — acquired extra capacity through the takeover of an ailing family company at Carnlough, County Antrim. Financial and other support was provided by the Local Enterprise Development Unit (LEDU), a Government agency (profiled last week, April 27), which is delighted that the whole operation now employs around 80 people, as opposed to the original target of 70.

Concentration on product development and careful financial and quality controls are the main factors which have helped Shanover grab roughly a 16 per cent share of all quilts sold by members of the Continental Quilt Association in the UK with natural (ie feather and down) fillings. Turnover for the year just ended is expected to work out at about £3m with pre-tax profits around the £200,000 mark.

Ironically Shanover's latest and potentially most exciting product—the Nestlewarm Ambi quilt—is being launched at a time when Shane feels a shade apprehensive about the future.

He explains: "We have been successful because our big competitors were inefficient and because at the beginning of 1980 the market was still expanding at the rate of about 20 per cent per annum. The recession, however, and Mrs Thatcher's economic experiment have forced big companies to improve their productivity in order to survive. What I would like to ask the present Government, which is rightly keen to encourage new firms, is what smaller companies in a major market should do once the competition becomes leaner and fitter and starts hitting back."

Shane, not surprisingly, has his own answer to the question —for the moment at any rate—it is "technological innovation."

The Nestlewarm Ambi, in particular, could only have been developed, he claims, with the use of the highly sophisticated electronic weighing equipment and computer testing facilities which he has built to control each stage of manufacture.

The key to the Nestlewarm is that it is what is known in the trade as a "two tog" quilt.

"Tog value" is what discerning shoppers look for to tell them how efficiently a quilt retains heat. A tog value of 10.5, for example, is pretty standard; anything below that allows the heat to escape more quickly, anything above it is the sign of a quilt which is more heat-retentive.

As such, the two tog idea is not new but where Shane feels he has made a breakthrough is in design. While other manufacturers either add an expensive chemical to provide the two different effects or join two separate quilts together, the Nestlewarm secret lies in a particular construction, filling weight and tension. At around £23 for a single-bed size it should be significantly cheaper than what is on offer from elsewhere.

**Frank Shane: the key is technological innovation**

Like all good ideas it is in essence extremely simple—feathers spread out or lie together depending on which side is turned up. Where the difficulty lies is controlling the quality.

That is precisely where Shanover claims to be ahead of its competitors. Thanks to a tie-up with the New University of Ulster at Coleraine, County Antrim, the company has developed a highly sophisticated computerised test room, where the accurate results which can be achieved under consistent temperature and humidity conditions should ensure that the quilt does what it claims.

"I do think that small companies ought to follow the example of big ones and make more use of the technical knowhow which is available at academic establishments," says Shane.

Marketing, says Shane, has also been a crucial factor in Shanover's success, though here there are probably few tricks his competitors cannot match. He has, for example, used different brand names for the same product to expand sales in the big high street multiples, (for example, House of Fraser, Tesco).

Although Shane is convinced that his testing facilities give the company a technological lead at the moment, he is prepared to admit that the advantage will not last for long. (He has, however, applied for the patent for the Nestlewarm Ambi.)

"Some big companies think that size is everything and that with their greater capital resources they will be able to take us on easily. I'm sure that a small company with intelligent people and the ability to innovate can keep ahead and succeed."

**T.D.**

## A FINANCIAL TIMES SURVEY

## SMALL BUSINESSES

**TUESDAY 22 JUNE 1982**

The Financial Times is planning to publish a survey on Small Businesses on the above date. The provisional editorial synopsis is set out below.

INTRODUCTION Small businesses have now been at the centre of attention in most Western countries for several years and there is no sign of this interest slackening. In the UK, as the recession has deepened, policies aimed at encouraging the creation and the growth of small businesses have been developed by the Government, financial institutions and large companies. But too much should not be expected of them in the short term. Abroad, countries like France, Canada and the US have adapted their policies and initiatives.

*Editorial coverage will also include:*

GOVERNMENT POLICY

SOURCES OF FINANCE

FOREIGN EXPERIENCE

SOURCES OF HELP, PROPERTY AND REPRESENTATION

**Copy date: 8 JUNE 1982**

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The size, contents and publication dates of surveys in the Financial Times are subject to change at the discretion of the Editor.

# FT COMMERCIAL LAW REPORTS

## Dual liability limit for damage caused by ships

THE S MJELI

Queen's Bench Division (Admiralty Court): Mr Justice Sheen: April 24 1982

**WHERE SHIPOWNERS delegate their duty to provide a seaworthy ship to a qualified subordinate, his negligence is not their "actual" fault or privity, and they are entitled to limit their liability by reference to the ship's tonnage; and if two of the owners' ships are involved in a damaging incident arising out of two separate causes of action, one in respect of each ship, the limit of liability will be calculated by reference to the tonnage of both ships.**

Mr Justice Sheen so held when giving judgment for the plaintiffs, Shepway District Council, in an action *in rem* against the Smjeli, and the Transporter III, both of which were owned by Brodospas of Yugoslavia, for damage caused by the two vessels to groynes owned by the council.

Section 503 of the Merchant Shipping Act 1894, as amended by the Merchant Shipping (Liability of Shipowners and Others) Act 1958, provides: (i) "The owners of a ship...shall not, where...without their actual fault or privity...(d)...any loss or damage is caused to any property...through the act or omission of any person...in the navigation or management of the ship...be liable to damages beyond the following amounts ... (ii) ... (d) ... an aggregate amount not exceeding an amount equivalent to one thousand gold francs for each ton of their ship's tonnage."

*

HIS LORDSHIP said that the dumb barge, Transporter III and the tub, Smjeli, were both owned by a Yugoslav towing organisation. On December 27 *1976 the owners entered into* a contract for the towage of cargo from Rotterdam to Yugoslavia.

The cargo-owners instructed an expert to approve the towage connection. *It was intended that* a wire, called a "fuse wire," should be included, with a breaking strain less than that of the main towing wire, so that if the strain on the towing connection was too great, it would part in that short length of wire.

The expert *approved the use* of the fuse wire without taking steps to find out its breaking strain. He and the tug master ought to have known that the breaking strain used was less than normal good practice required.

Before the Smjeli and her tow left Rotterdam the tug master received a test certificate in respect of the fuse wire. That information should have told him that the breaking strain was not in accordance with proper practice. He was negligent in that respect.

The expert was required to issue a certificate approving the towage arrangements, and stating that departure from Rotterdam was taking place in fine weather. He was not willing to remain in *Rotterdam until the weather* improved sufficiently for him to certify that the tug and tow could safely depart. He signed a certificate of approval leaving the space for the date blank, so that it could be filled in by the tug master on the day of departure.

Such behaviour was a breach of good faith with the cargo owners who had employed the expert. The owners approved the use of whatever towage connection was recommended by him, because they relied on his ability. They also relied on his assurance that a suitable period *of weather had set in for departure of the tug and tow.*

On January 13, 1977, Transporter III was being towed by the Smjeli to Yugoslavia. They had reached a position about seven miles east of Dungeness when the towing hawser parted. Transporter III was then driven by a southerly gale towards the coast of Kent. She grounded west of Folkestone Pier and caused damage to some groynes which were the property of the District council.

The council claimed damages in respect of the loss and damage. It issued a writ *in rem* against each vessel. The owners admitted liability in so far as the damage was caused by the *sole and exclusive negligence of* the tug master.

They asserted that the liability arose without their "actual fault or privity," and that they were therefore entitled to limit their liability under section 503 of the Merchant Shipping Act 1894. They said that the limit of liability was to be calculated by reference to Smjeli alone and was thus limited to £23,602, where as the council contended that if it were limited, it should be calculated by reference to the aggregate tonnage of both vessels, which would total £85,680.

Mr Steel for the council, however, submitted that the owners were not entitled to limit their liability at all because damage was caused as a result of their actual fault. He said that it was the duty of the owners to send their tug and tow to sea in a seaworthy condition, and that that duty was non-delegable.

He relied on *Standard Oil Company of New York v Clan Line Steamers Limited [1924]* AC, where Lord Haldane said at page 112, that the owners' "personal duty was to provide a seaworthy ship. . . . That they *left their duty to be discharged* by their servant or agent, therefore, did not relieve the owners of blame."

It could not be right to say that if the owners' performance *of the common law duty to use* reasonable care to send their vessels to sea in a seaworthy condition was delegated to a properly qualified subordinate, any fault of that subordinate was to be treated as actual fault of the owners.

The owners were justified in placing reliance on the expert and on their experienced tug master, who had a test certificate for the wire.

Accordingly, it followed that the damage occurred without the actual fault or privity of the owners, and that they were not liable in damages beyond the limits prescribed by section 503 of the Act.

*

The first question to be asked in "tug and tow" cases was: what acts or omissions gave rise to liability? The second was: had a limit been set on the damages payable? One cause of action gave rise to one limited liability.

In the present case there was more than one distinct cause of action. The writ was a writ *in rem against two ships.* Two separate writs could have been issued, one against Transporter III, and the other against Smjeli. The owners were liable to the council on two unconnected causes of action.

Damage was done by Transporter III, when she struck the groynes. The council's cause of action against her arose out of negligent acts or omissions amounting to improper management, which occurred when the towage arrangements were made in Rotterdam. A claim for damages would have been successful if a servant of the barge-owners were guilty of those acts or omissions, regardless of who owned the tug. There was no reason why their liability should be limited to a lesser sum because they also owned the tug. The amount calculated by reference to the tonnage of the barge was £62,078.

The council also had a cause of action against Smjeli. It was admitted that the tug master was negligent in his navigation of Smjeli in allowing the fuse wire to part and in failing to seek shelter. For those acts their liability was limited to £23,602.

Judgment for the council for £85,680.

*For the council: David Steel QC and Charles Haddon-Cave (Sinclair, Roche and Temperly).*

*For the owners: Gerald Darling QC and Geoffrey Kinley (Wm. A. Crump and Son).*

**Rachel Davies**
*Barrister*

## RACING

BY DOMINIC WIGAN

WITH NO COLT of anything approaching the calibre of last year's *Chester Vase hero,* Shergar, in the line-up for today's second major Derby trial, the way should be clear for Zilos to record his third victory from six attempts.

A smart two-year-old, though one who had his limitations on extremely fast ground exposed when he trailed home last of 11 behind End Of The Line in the July Stakes, Zilos is going to be good enough to take his place in the Derby line-up judged on *his recent run in the Guardian* Classic Trial.

More backward in appearance than any of his 10 opponents at Sandown, Zilos ran a highly credible race to finish fourth, some six lengths behind England's one-time top Derby hope, Peacetime.

Certain to be all the better for his run on the Esher course *where he found difficulty in* going the pace in the early stages, Zilos should prove a different proposition over an additional two furlongs at Chester. He is likely to find the lightly raced Father Rooney his most troublesome opponent inside the final furlong.

*Those who saw Peter* Walwyn's Centrust win at Wolverhampton last month will be loth to oppose the colt in the Lily Agnes Stakes. Well-drawn at No two in a field of six — which sees Father Rooney's stablemate, Valerian (U.S.), handicapped by the outside draw over a course with the sharpest turns in the country—Centrust should complete the double.

There are few better bred three-year-olds in training than Gleeman. The chestnut colt's owner, Mr Abdulla, will be more than pleased if *his 350,000* guineas yearling purchase can gain his first win in the *Grosvenor Stakes.*

● Silver Buck has been voted National Hunt Horse of the Year in the Racegoers Club's annual poll.

The press selection committee awarded 25 votes to the Tote Cheltenham Gold Cup winner with five votes going to the Sun Grand National winner, Grittar, and one to Richdee.

**CHESTER**

2.15—Centrust***
2.45—Petite Hester
3.15—Commonty
3.45—Zilos
4.15—Mumruffin*
4.45—*Gleeman***

# TELEVISION

### Chris Dunkley: Tonight's Choice

I cannot achieve quite the fashionable degree of frenzy in my pondering over whether Terry Wogan is going to be the new Michael Parkinson. One would hope not, since Parkinson was a rather good journalist who was outstanding as the presenter of "Cinema" and then, on the Peter principle, was promoted to the show-business job of chat-show host which he never quite mastered.

Wogan started out with lightweight radio programmes and has progressed to lightweight television programmes. I suspect that he could, if he chose, handle far more intelligent material and, who knows, his new eponymous series on BBC 1 might one day turn into a thinking man's Parkinson show. Not yet though. Tonight's opening edition of **Wogan** features Bruce Forsyth and Paula Yates.

That's preceded by **Play For Tomorrow**, a series which cannot, surely, consist exclusively of disasters though it has certainly managed a dolefully consistent record so far. Tonight's play, the first to be written for television by Tom McGrath, is set in 1999 and concerns "The nuclear family" headed by comedian Jimmy Logan.

### BBC 1

6.40-7.55 am Open University (Ultra High Frequency only). *9.05 For Schools, Colleges.* 12.30 pm News After Noon. 1.00 Pebble Mill At One. 1.45 The Flumps. 2.00 You and Me. 2.15-2.35 For Schools, Colleges. 3.25 Weekend Wardrobe. 3.53 *Regional News for England* (except London). 3.55 Play School. 4.20 The All New Popeye Show. 4.40 The Record Breakers. 5.05 John Craven's Newsround. 5.10 Rentaghost.

5.40 News.
6.00 Regional News Magazines.
6.25 Nationwide.
6.50 Looking Good, Feeling Fit: The show that helps you make the best of what you've got.
7.15 Triangle.
7.40 QED.
8.10 Flesh and Blood, starring Thora Hird and Bill Fraser.
9.00 Party Political Broadcast by the Labour Party.
9.10 News.
9.35 Play for Tomorrow: The Nuclear Family by Tom McGrath.
10.40 Wogan: Terry Wogan hosts a late-night show with top stars from home and abroad.
11.13 News Headlines.
11.15 Harry O, starring David Janssen.

### BBC 2

6.40-7.55 am Open University.
9.00-9.20 For Schools, Colleges.
*11.00-11.25 Play School.*
1.00 Snooker and Racing.
5.10 Stantonbury: A Blueprint Analysed.
†5.40 Buck Rogers.
6.00 Snooker.
6.35 *News Summary.*
6.40 Broadway Musicals: "Kismet." starring Howard Keel.
*8.30 Top Gear.*
9.00 Party Political Broadcast by the Labour Party.
9.10 Roy Clark Travelling Music Show.
9.55 Snooker.
*10.45 Newsnight.*
11.30-12.15 am Snooker.

### LONDON

9.35 am Schools Programmes. 12.00 Button Moon. 12.10 pm Let's Pretend. 12.30 The Sullivans. 1.00 News with Peter Sissons, plus Financial Times Index. 1.20 Thames News, with Michael Wilson. 1.30 Crown Court. 2.00 After Noon Plus, *with Elaine Grand.* 2.45 *My* Father's House. 3.45 Home Sweet Home, starring John Bluthal. 4.15 Sylvester. 4.20 On Safari. 4.45 CB TV—Channel 14. 5.15 Emmerdale Farm.

5.45 News.
6.00 Thames News
6.20 Help!
6.30 Crossroads.
6.55 Reporting London.
7.30 Give Us A Clue.
8.00 Sorry, I'm A Stranger Here Myself.
8.30 The Morecambe and Wise Show, with Peter Bowles, Suzanne Danielle, and Faith Brown.
9.00 Party Political Broadcast by the Labour Party.
9.10 The Brack Report.
10.10 News.
10.55 The Human Race: Desmond Morris in Passionate Survivors.
11.55 Crying Out Loud Privacy Made Public.
12.25 am Close: Sit up and Listen

† Indicates programme in black and white.

**All IBA Regions as London except at the following times:—**

**ANGLIA**
12.30 pm Gardening Time. 1.20 Anglia News. 3.45 Looks Familiar. 6.00 About Anglia. 6.35 Crossroads. 7.00 Gambit. 11.55 Quincy. 12.50 am Letters from Rome.

**BORDER**
1.20 pm Border News. 3.45 Looks Familiar. 5.15 Jangles. 6.00 Lookaround Tuesday. 6.35 Crossroads. 7.00 Emmerdale Farm. 11.55 News Summary.

**CENTRAL**
12.30 pm The Young Doctors. 1.20 Central News. 3.45 Looks Familiar. 5.15 Jangles. 6.00 Crossroads. 6.25 Central News. 7.00 Emmerdale Farm. 11.55 Central News. 12.00 Pro-Celebrity Angling.

**CHANNEL**
12.30 pm The Electric Theatre. 1.20 Channel Lunchtime News, What's On Where and Weather. 3.45 Welcome Back Kotter. 5.20 Crossroads. 6.00 Channel Report. 6.30 Looks Familiar. 7.00 Private Benjamin. 9.00 A Chance to Meet . . . Jackie Stewart. 10.38 Channel Late News. 11.55 Danger UXB. 12.50 am Commentaires et Prévisions Météorologiques.

**GRAMPIAN**
9.30 am First Thing. 12.30 pm Paint Along with Nancy. 1.20 North News. 3.45 Looks Familiar. 6.00 North Tonight. 6.35 Crossroads. 7.00 The Electric Theatre Show. 11.55 Spellbinders. 12.25 am North Headlines.

**GRANADA**
1.20 pm Granada Reports. 1.30 Exchange Flags. 2.00 Crown Court. 2.30 Home Front. 3.45 Looks Familiar. 5.15 Happy Days. 6.00 This Is Your Right. 6.05 Crossroads. 6.30 Granada Reports. 7.00 Emmerdale Farm. 10.55 Local Election Preview.

**HTV**
12.30 pm Paint Along with Nancy. 1.20 HTV News. 3.45 Looks Familiar. 4.15 Ask Oscar! 5.15 Diff'rent Strokes. 6.00 HTV News. 6.25 Crossroads. 7.00 Emmerdale Farm. 10.38 HTV News. 11.55 Portrait of a Legend—Singer songwriter Paul Anka.
HTV Cymru/Wales—As HTV West except: 9.35-9.50 am Mwy Neu Lai. 11.39-11.54 Yn Eu Cynefin. 11.55 Cartoons. 12.00-12.10 pm Cei Cocos. 4.15-4.45 Ar Ei Ol. 6.00 Y Dydd. 6.15-6.35 Report Wales. 10.55 Cefn Gwlad. 11.40-12.40 am The Human Race (as HTV West at 10.55 pm).

**SCOTTISH**
12.30 pm Gardening Time. 1.20 Scottish News. 3.45 Looks Familiar. 5.10 Teatime Tales. 5.20 Crossroads. 6.00 Scotland Today followed by Job Spot. 6.30 What's Your Problem? 7.00 Emmerdale Farm. 11.55 Late Call. 12.00 Nero Wolfe.

**TSW**
12.30 pm Electric Theatre Show. 1.20 TSW News Headlines. 3.45 Welcome Back, Kotter. 5.15 Gus Honeybun's Magic Birthdays. 5.20 Crossroads. 6.00 Today South West. 6.30 Looks Familiar. 7.00 Private Benjamin. 10.42 TSW Late News. 11.55 Danger UXB. 12.50 am Postscript. 12.55 South West Weather.

**TVS**
1.20 pm TVS News. 3.45 Looks Familiar. 5.15 Watch This Space . . . Lemon of the Week. 5.30 Coast to Coast. 6.00 Coast to Coast (continued). 6.35 Crossroads. 7.00 The Real World. 11.55 Brass in Concert. 12.40 am Company.

**TYNE TEES**
9.25 am The Good Word. 9.30 North East News. 1.20 pm North East News and Lookaround. 3.45 The Riordans. 4.15 Cartoon Time. 5.15 Jangles, starring Hazel O'Connor. 6.00 North East News. 6.02 Crossroads. 6.25 Northern Life. 7.00 Emmerdale Farm. 10.55 North East News. 11.55 The Two of Us. 12.25 am In the Picture.

**ULSTER**
1.20 pm Lunchtime. 3.45 Looks Familiar. 4.13 Ulster News. 5.15 Lemon of the Week. 5.30 Good Evening Ulster. 6.25 Crossroads. 7.00 Emmerdale Farm. 10.39 Ulster Weather. 11.55 News at Bedtime.

**YORKSHIRE**
12.30 pm Looks Familiar. 1.20 Calendar News. 3.45 Calendar Tuesday. 5.15 Jangles. 6.00 Calendar (Emley Moor and Belmont editions). 6.35 Crossroads. 7.00 Emmerdale Farm. 11.55 Barney Miller.

# RADIO

(S) Stereophonic broadcast (when broadcast on VHF)

**RADIO 1**
5.00 am As Radio 2. 7.00 Three Man In A Boat. 9.00 Simon Bates. 11.30 Dave Lee Travis. 2.00 pm Steve Wright. 4.30 Peter Powell. 7.00 Talkabout. 8.00 David Jensen. 10.00-12.00 John Peel (S).

**RADIO 2**
5.00 am Ray Moore (S). 7.30 Terry Wogan (S). 10.00 Harry Carpenter (S). 12.00 Gloria Hunniford (S). 2.00 Ed Stewart (S) including racing from Chester. 4.00 David Hamilton (S). 5.45 News; sport. 6.00 John Dunn (S). 8.00 The Golden Age of Hollywood. 9.00 Listen to the Band (S). 9.30 The Organist Entertains (S). 9.55 Sports Desk. 10.00 The Arthur Askey Show. 11.00 Peter Clayton with Round Midnight. 1.00 am Encore with The Radio Orchestra, The Big Band and The Strings (S). 2.00-5.00 You And The Night And The Music (S).

**RADIO 3**
6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 9.00 News. 9.05 This Week's Composer: Roussel (S). 10.00 Beethoven: Piano Concerto No. 3 (S). 10.35 Ravel's Music for Violin and Piano (S). 11.25 Brahms and Kodaly (S). 12.10 pm BBC Welsh Symphony Orchestra, part 1 (S). 1.00 News. 1.05 Six Continents. 1.25 BBC Welsh Symphony Orchestra, part 2 (S). 2.15 Schubert (S). 3.05 Stokowski Conducts the New York Philharmonic Orchestra: Vaughan Williams, Shostakovich. 4.25 Jazz Today (S). 4.55 News. 5.00 Mainly For Pleasure (S). 7.00 Crowded Hours: Alastair Hetherington in conversation with Sir David Orr, chairman of Unilever. 7.45 BBC Manchester Master Concert, part 1: Berg (S). 8.05 The Living Poet: John Ormond introduces a selection of his work. 8.25 BBC Manchester Master Concert, part 2: Mahler (S). 9.50 Bach (S). 10.00 Interpretations on Record (S). 11.00 News. 11.05-11.15 Ravel (S).

**RADIO 4**
6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping Forecast. 6.30 Today. 8.43 Patrick Campbell's Columns read by Leo Maguire. 8.57 Weather, travel. 9.00 News. 9.05 Tuesday Call: 01-580 4411 (Newspapers). 10.00 News. 10.02 From Our Own Correspondent. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.03 Thirty-Minute Theatre. 11.33 Wildlife. 12.00 News. 12.02 pm You And Yours. 12.27 Detective. 12.55 Weather, travel, programme news. 1.00 The World At One. 1.35 A Party Political Broadcast by the Labour Party. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Never Seen Kissed in the Same Place Twice. 4.00 News. 4.02 Round Pegging. 4.10 Mastermind of Gardening 1982. 4.40 Story Time. 5.00 PM: News Magazine. 5.50 Shipping Forecast. 5.55 Weather, programme news. 6.00 News, including Financial Report. 6.30 Brain of Britain 1982 (S). 7.00 News. 7.05 The Archers. 7.20 Medicine Now. 7.50 File on 4. 8.20 The Story-Teller: Hector Munro, better known by his pen-name—Saki. 9.05 In Touch. 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 And So To Bed: Late-night, light-hearted conversation with Ned Sherrin. 11.00 A Book At Bedtime. 11.15 The Financial World Tonight. 11.30 Today In Parliament. 12.00 News.

# CONTRACTS AND TENDERS

**The Ministry of Public Works**
**Civil Engineering Department (ced)**
**Mogadishu/Somali Democratic Republic**

Invites tenders for delivery cif Mogadishu and assembly, if any, of below listed equipment for the CED workshop.

—One two-flow shaft system for tools and spare parts.
—Parts store handling equipment (ladders, transporters, cabinets, etc.).
—Three car and truck tyre mounting machines.
—Three air compressors.
—Three battery chargers.
—One forklift.
—Two valve refacing machines.
—One electrical column drilling machine.
—Greasing and washing station equipment (steam cleaning unit, high-pressure water pump, washing hoses, high-pressure grease pump, oil cabinets and installation material).

*Tender documents can be obtained from:*
**DORSCH CONSULT**
Brauhausstieg 15
D-2000 Hamburg 70
West-Germany
Phone 68 23 86 Telex 2 13 672
up to May 31st, 1982

Tenders' submittal to the CED latest June 30th, 1982.
Payment through letter of credit of the Somali Central Bank, guaranteed by the Arab Fund for Economic and Social Development in Kuwait.

CODELCO-CHILE

**CORPORACION NACIONAL DEL COBRE DE CHILE**
**DIVISION CHUQUICAMATA**

## Railway Equipment for Sale

THE CORPORACION NACIONAL DEL COBRE DE CHILE (CODELCO-CHILE) CHUQUICAMATA DIVISION offers for sale the following railway equipment:

**24 DIESEL-ELECTRIC LOCOMOTIVES:**
Manufactured by General Motors: model SW - 1200; 1200 HP at sea level; main dimensions: 44' 5" long, 14' 8 - 1/2" high, 10" wide; estimated weight 248.000 lbs.; maximum speed 65 MPH; rail gauge 56 - 1/2"; general condition: operable; purchase date between 1958 and 1963.

**4 ELECTRIC PUSHER LOCOMOTIVES**
Manufactured by Baldwin Westinghouse; dimensions: 22' 7 - 1/2" long, 13' 8" high, 9' 9" wide; estimated weight 30 tons.; maximum speed 32 MPH; rail gauge 56 - 1/2"; general condition: two in regular condition, operable, two in bad condition; purchase date: three purchased in 1927 and one in 1944.

**OTHER EQUIPMENT**
Five Nordberg trackwalkers, two Fairmont patrols with two engaged cars each; two Fairmont Tie - Tamping Machines and four Brown Hoist electric cranes.

**GENERAL SALES CONDITIONS**
1.—Most of the equipment for sale is in operable condition.
2.—Equipment can be seen in Chuquicamata, in the area of the former construction warehouse yard.
3.—Equipment will be exhibited from May 10th through June 10th 1982 from 1.00 to 6.00 P.M., mondays through fridays.
4.—The Chuquicamata Division will have personnel on hand to answer questions from interested parties, on the equipment for sale.
5.—Parcel or package bids will be received only at the Sales Office in the Contracts Department, house Nº 319, Chuquicamata, Chile, in sealed envelope and up to August 31st, 1982.

**REFUNDABLE GUARANTEE DEPOSIT REQUIRED:** with the bid the interested party must enclose a refundable deposit covering 10 per cent of the proposed purchase price. Said deposit will be returned to the purchaser when the sales contract is signed. If purchase offer is turned down the deposit will be returned to the sender 30 days after closing date. The deposit check or money order will be made out to the name of "CODELCO-CHILE CHUQUICAMATA DIVISION".

**NOTICE:** CHUQUICAMATA DIVISION reserves the right to accept the offer deemed best with no further explanation. Also, CHUQUICAMATA DIVISION may turn down one, several or all bids or reappraise part of one bid without expression of cause. No indemnization claim will be applicable by the bidders in any of these circumstances.

# COMPANY NOTICES

## AB ELECTROLUX

**TO THE SHAREHOLDERS OF AKTIEBOLAGET ELECTROLUX**

*The Annual General Meeting of the company will be held on Thursday, May 27, 1982, at 10.00 a.m., at Skandinaviska Enskilda Banken, The Conference Room, Sergels Torg 2, Stockholm.*

**AGENDA**
Matters prescribed by the Swedish Companies Act and by the Company's Articles of Association including among others, presentation of the annual report and accounts and the auditor's report and the consolidated accounts and the auditor's report on the group, resolutions on adoption of the profit and loss statement and the balance sheet and on the consolidated profit and loss statement and the consolidated balance sheet, on appropriation of the Company's profit according to the adopted balance sheet, on the discharge of the Directors and the Managing Director from liability and election of Directors, Deputy Directors, Auditors and Deputy Auditors.
A proposal by the Board of Directors to amend the first sentence of article 8 of the articles of association to read as follows: "The Board of Directors of the Company shall consist of not less than five and not more than fifteen members with not more than ten Deputy members."

**ATTENDANCE AT THE MEETING**
Shareholders wishing to attend the meeting shall be registered in the shareholders register maintained by Vaerdepappercentralen VPC AB (Securities Register Centre) not later than Monday, May 17, 1982. In addition, they shall notify the Company of their intention to attend the meeting not later than 4.00 p.m. on Monday, May 24, 1982, either in writing to AB Electrolux, Dept. C-J, S-105 45 Stockholm, Sweden, or by telephone to +46 (8) 738 6793 or +46 (8) 738 6780.
Shareholders whose shares are registered in the name of a nominee such as the trust department of a bank or a stockbroker, must temporarily have their shares registered in their own names at VPC not later than May 17, 1982, to have the right to vote at the meeting. Shareholders may vote by proxy.

**DIVIDEND**
Provided the meeting resolves in accordance with the proposal of the Board of Directors, the dividend is estimated to be distributed by Vaerdepappercentralen VPC AB on June 8, 1982.
28 April 1982 THE BOARD OF DIRECTORS

**Electrolux**

## FLEMING JAPAN FUND S.A.

Société Anonyme
Luxembourg, 37, rue Notre-Dame
R.C. Luxembourg B 8392

### Notice of Meeting

Notice is hereby given that the Annual General Meeting of the company will be held at the offices of Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, Luxembourg, on May 12th, 1982 at 3.00 p.m. with the following agenda:

**Agenda**
1. Submission of the reports of the Board of Directors and of the Statutory Auditors.
2. Approval of the financial statements for the year ended 31st December, 1981.
3. Approval of the payment of a dividend.
4. Discharge of the Directors and of the Statutory Auditors in respect of their duties carried out for the year ended 31st December, 1981.
5. Ratification of the co-options of Directors.
6. Receipt of and action on nominations for election of Directors and of the Statutory Auditors for a new statutory term.
7. Directors' remuneration.
8. Miscellaneous business as may properly come before the Meeting.

Shareholders are advised that there is no quorum requirement and the resolutions will be passed at the simple majority of the shares present or represented at the Meeting.

A member entitled to attend and vote at the above Meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of the company.

In order to take part at the Meeting the owners of bearer shares have to deposit their share certificates five clear days before the Meeting at the registered office of the Fund or at a bank.

The Board of Directors

## ABN Bank

ALGEMENE BANK NEDERLAND N.V.
(Incorporated in The Netherlands with limited liability)

FINAL DIVIDEND FOR THE YEAR 1981

At the Annual General Meeting held on 29th April, 1982, a final dividend of Dfls 13.- per share was declared payable, at the option of the shareholders, in shares and cash or wholly in cash, as from 13th May, 1982.

Shareholders opting for the shares and cash alternative would be entitled to a share premium bonus of one ordinary share for every holding of 40 ordinary shares together with Dfls 7.50 in cash against presentation of coupons 54 and 53. They will receive one additional ordinary share of Dfls 100 for every 40 coupons no. 54 from the ordinary shares presented at the following offices:

Baring Brothers & Co., Ltd., 8, Bishopsgate, London, EC2N 4AE.
Algemene Bank Nederland N.V., 61, Threadneedle Street, London, EC2P 2HH.
Algemene Bank Nederland N.V., 61, King Street, Manchester, M2 4PD.
Algemene Bank Nederland N.V., 35, Waterloo Street, Birmingham B2 5TJ.

*New share certificates may be distributed in the form of CF-certificates* as K-certificates with coupons no. 55 and following and talon attached.

Stock options not exercised by 31st August, 1982, will be sold and the proceeds held for distribution to holders of coupons no. 54 not presented for payment by that date.

Shareholders opting for cash will be entitled to cash payments of Dfls 7.50 and Dfls 5.50 per share against coupons 53 and 54, respectively.

U.K. residents who are liable to U.K. taxes on dividends paid to them and who do not carry on a trade or business in The Netherlands through a permanent establishment situated therein, may have Netherlands dividend tax reduced from 25 pct. to 15 pct. if the coupons are accompanied by a completed form 92VK, which may be obtained at any one of the above mentioned offices.

Amsterdam, 3rd May, 1982. THE MANAGING BOARD.

**WATNEY MANN INTERNATIONAL FINANCE N.V.**

7¾% EUA 12,000,000 1969/1984

Holders of the above mentioned bonds are hereby informed that the 13th annual instalment of EUA 1,000,000 due 15th June, 1982 has been effected by drawing by lot on April 15, 1982 in the presence of a notary public.

The bond numbers so drawn are comprised between No. 1 inclusive and No. 1019, inclusive and No. 11446 inclusive and 12000 inclusive taking into consideration the bonds previously repurchased or redeemed.

The bonds shall be redeemable at par on or after 15th June, 1982 at the offices of the paying agents set forth in the prospectus and the conditions of the bonds.

The amount remaining outstanding after 15th June, 1982 will be EUA 2,000,000.

Bond numbers drawn by lot in 1979, 1980 and 1981 and not yet presented for payment: [illegible]

**BANQUE INTERNATIONALE A LUXEMBOURG**
Société Anonyme
Trustee

Luxembourg, 4th May, 1982

**U.S.$7,500,000 BEARER DEPOSITARY RECEIPTS REPRESENTING UNDIVIDED INTERESTS IN A FLOATING RATE DEPOSIT DUE 1983-85 WITH SOCIEDAD FINANCIERA DE CREDITO SOFICREDITO C.A.**

U.S.$7,500,000 Bearer Depositary Receipts representing undivided interests in a Floating Rate Deposit due 1983-85 with Sociedad Financiera de Credito SOFICREDITO C.A. ("the Depositary Receipts") [illegible]

**SWISS BANK CORPORATION, Agent Bank.**

Dated 4th May, 1982.

**SOLEX P.L.C.**

NOTICE IS HEREBY GIVEN that subject to approval in General Meeting a Dividend of 0.2 per cent tax unmitted will be payable on the 10th May, 1982, in respect of the year 1981, to shareholders on the register at the close of business on the 14th April, 1982. [illegible]

By Order of the Board,
[illegible]
Secretary.

Honeypot Lane,
Stanmore,
Middlesex.
May, 1982.

**AMOCO (U.K.) EXPLORATION COMPANY**

Copies of the Financial Statements for 1981 are now available and may be obtained from:

The Assistant Secretary
Amoco (U.K.) Exploration Company
1 Stephen Street
Tottenham Court Road
London W1P 1PJ

## LEGAL NOTICE

DONALD TAYLOR (SHOPFITTERS) LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 293 Companies Act 1948, that a Meeting of the Creditors of the above-named Company will be held at Room 19, Winchester House, 77 London Wall, London, E.C.2, on Tuesday 18th day of May, 1982 at 11.45 o'clock in the forenoon for the purposes mentioned in Sections 294 and 295 of the said Act.

Dated this 27th day of April, 1982.
By Order of the Board,
D. G. TAYLOR.

## PUBLIC NOTICE

CITY OF BRISTOL
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# THE ARTS

Birmingham Town Hall

## Joubert/Beethoven

by MARTIN DREYER

The topical irony of a protracted voyage to Byzantium, where ideologies clash, a voyage, furthermore, clouded by meteorological uncertainty, could hardly have been uppermost in John Joubert's thinking, when he accepted a Feeney Trust commission for a choral symphony. *Gong-Tormented Sea*, Joubert's Opus 96 and also his third symphony, was launched on Thursday by the City of Birmingham Symphony Orchestra and its equally adventurous chorus, navigated with disciplined vigour by Nicholas Cleobury.

Not that its narrows are tonally treacherous. Its three movements sail continuously for nearly 40 minutes and culminate in a stunning setting of Yeats' *Byzantium*, whose last line supplies the title. Here, a fragment of Byzantine chant floats high in the violins over ever-quickening pizzicato under-currents, vividly supplemented by surging voices. As baritone protagonist, Norman Bailey was submerged too often for comfort. Alone in the second movement, Roy Campbell's "Rounding the Cape," he gave a useful portrayal of a world-weary old salt, but he was musically wayward, and the voiced lacked a hard core.

Joubert's orchestra is shamelessly programmatic at the start — murky strings, bass-clarinet-foghorn, brassy wave-figures — and no less appealing for that. But his choice of some Whitman sea-doggerel, complete with gratuitous choral high Cs, seemed superfluous to the creation of nautical atmosphere. Nevertheless, *Gong-Tormented Sea* stands firmly in the best Vaughan Williams/Walton oratorio tradition. Roll over, Belshazzar.

Erich Schmid took the helm for a relentlessly hard-driven reading of Beethoven's Ninth, in which the CBSO Chorus was augmented by the City of Birmingham choir. Schmid seemed bent on expunging all traces of soft-bellied romanticism from the score. His early over-anxiety resulted in palpable nervous tension among his woodwinds and fragility in the horns. But his strings maintained robust, straight-toned composure. The result, though intermittently exciting, was poorly balanced: attention to detail succumbed to the heat of the moment. The solo quartet's tuning, despite Alison Hargan's resolute soprano, similarly wilted under duress. But the combined choirs responded with muscular, clear-toned enthusiasm, compensating for much of the ruthlessness of what had gone before.

St. John's, Smith Square

## Telemann

by ANDREW CLEMENTS

One of the sharper ironies of London concert-going is that there is always a far bigger audience for baroque novelties than could ever be attracted to a new contemporary work. St John's was comfortably full on Sunday evening for the first public performance in Britain of Telemann's *Die Tageszeiten*. Even taking account of Vivaldi's *Four Seasons* in the second half of the programme, the turn-out was impressive and enthusiastic.

The concert was given by the Raglan Baroque Players, conducted by Nicholas Kraemer. Their account of *Die Tageszeiten*, on period instruments, convinced one that, while the work was not an overlooked masterpiece, it hardly deserved total neglect. There is a fair quota of effortless melody and deftly turned scoring, and its composition in 1757 was part of the great burst of creativity that characterised the final decade of Telemann's life. It is a cantata for four soloists and chorus which lasts around an hour, but in structure it is a series of four solo contatas laid end to end, each completed by a short chorus and the whole prefaced by a brief three-part Sinfonia.

The text is taken from a longer poem by Wilhelm Friedrich Zachariae and each of its four sections dipicts a different time of day—morning, noon, evening and night. Telemann uses different obbligato instruments to characterise each section — trumpet with the soprano soloist for the first, viola da gamba with the mezzo soprano for the second, then two flutes with tenor, and recorder and bassoon with the baritone for the final night music.

The Raglan Players' premiere might have been judiciously pruned, for though some of the *da capo* arias introduced delightful variants in their reprises, the amount of repetition is high. Kraemer favoured light textures and more robustness would have been welcomed at time though the chorus, the London Oratory Choir and Junior Choir, had a healthy edge to its sound. The soloists—Gillian Sullivan, Susan Tyrell, Rowland Sidwell and Richard Jackson—were more or less successful, though more than one of them had problems of intonation. Could the lower pitch of an "authentic" performance cause difficulties for singers who have previously practised their contributions with pianos at concert pitch?

## Shaw at the Haymarket

Shaw's *Captain Brassbound's Conversion*, the third play in the Haymarket Theatre repertory season, will open on June 10. Lady Cicely Waynflete is played by Penelope Keith, John Turner is Captain Brassbound and Michael Denison is Sir Howard Hallam. The play is directed by Frank Hauser, designed by Nicolas Georgiadis, with costumes by Robin Fraser-Paye. Other members of the company are John Grieve, David Collings and Jonathan Coy.

*Capitain Brassbound's Conversion* is set in Morocco. The part of Lady Cicely Waynflete was originally written for Ellen Terry who played it in 1906, and the role was last played in London by Ingrid Bergman.

Peter Barkworth, currently starring in *A Coat of Varnish* by Ronald Millar, will be away from the production for six weeks as he is having an emergency spinal operation. Therefore *Hobson's Choice*, which returned to the repertoire on April 15, will run to May 29. *A Coat of Varnish* returns on June 24.

## Moore sculptures offered to GLC

Two Henry Moore sculptures, now in the grounds of the Tate Gallery, are being offered to the Greater London Council on a long-term loan. The works, entitled *Two Pieces Reclining Figure Number 5*—and *Upright Motives Numbers 1, 2 and 7*, are sited by the entrance of the Tate.

London galleries

## May mixture

by WILLIAM PACKER

There are always too many things to see, indeed too many so very much worth the seeing in London's galleries, that in present circumstances to cast an eye over even the best of them, let alone to sustain any diligent and comparative surveillance, can never be anything more than a fond and pious hope.

Add to them the treats to be had in the country at large, and abroad, that should be seen as well, if only to save us from such desperate parochialism, and the bare statement of the problem is argument enough.

Certain major items do loom ahead, the Royal Academy Summer Show for example, and the full treatment for Graham Sutherland at the Tate, which can hardly be ignored; but in the meantime there is so much else, of all kinds. Among the most notable is a timely and substantial study of the work of Mark Gertler that the Ben Uri Gallery in Dean Street has organised (until May 27).

It is especially useful in that Gertler's name has become current once more in the train of the revivified and flourishing Bloomsbury industry of recent years, with its admirable and necessary reassessments of the major literary reputations, and its perhaps more dubious, though highly enjoyable exercises in personal biography.

As is the way with such affairs, the peripheral figures are inclined to be cast as ornaments to the serious business, all the more so if they happen to be painters, with the qualities of their work, and thus their reputations, assumed rather than actually considered. The handsome and unhappy Gertler, and the fascinating and as unhappy Carrington, are principals in a well-documented and eventually tragic tale which has everything to do with love, hope, frustration, infidelity, tuberculosis, homosexuality and at last, and at a remove, suicide for them both; and though the image of the great but unsung talent fits in very well, it has rather less to do with sober practice and achievement.

There has been little study of Gertler's work in the 40 odd years since his death, and nothing at all in a gallery apart from a handful of pictures here and there for more than a decade. This show carries the sub-title of "The early and the late years," and indeed the comparative device serves well enough.

We follow him from his time at the Slade around 1910, and his early connections with the New English Art Club through to his full immersion in the Bloomsbury pool during the Great War: pacifism, Lytton Strachey and all that Garsington could offer; and so on to Paris in the early 1920s. There is then a break and then we pick up again to follow him throughout the '30s, from his move to Hampstead, his marriage, his succession of failures in the West End, his recurrent illness, to his death in the high summer of 1939.

The early work is by far the best of it, truly full of promise for all its idiosyncrasy: but that very trait may have been its inherent, fatal weakness. A young, energetic, most personable young man at the heart of the art world and receptive to every influence, we see him working now for all the world like Augustus John, now not at all unlike Wilson Steer, now a curiously whole-hearted composite of his Vorticist contemporaries at the Slade, his large and splendid Merry-Go-Round of 1916 out of Roberts perhaps, by Bomberg, Nevinson, Lewis. It is a fine thing certainly, but not altogether convincingly his own.

There we have it: a number of fine things, the Tate's portrait of his Mother for example, or the later Coster Woman in her feathered hat, beautifully drawn and made and evincing manifest talent, but nothing to confirm it or establish it as something rather more, a consistent and substantial achievement. It is easy to see how convincing he must have seemed to so many in those early days, and equally easy to understand how desperate his sense of his own subsequent failure must have been.

His later paintings are extraordinary, flailing exercises in pastiche, but not in any knowing or cynical way. Rather more poignant than that, they suggest a repeated and despairing effort to catch the secret sympathetically of someone else's authentic vision: Picasso's, Matisse's, Modigliani's, Cézanne's. Inevitably they are failures, and Gertler stands revealed as a truly tragic, unenviable figure.

There is no space to do more than recommend a few other shows, that perhaps I can return to another time. The Anne Berthoud Gallery, which goodness knows is tiny enough, is now crammed with a most entertaining collection of drawings and painting by some 40 artists, the well-known with the obscure (until June 5).

The Coster Woman (1923) by Mark Gertler

All were asked for a portrait of some kind, and among the best are a recent painting by Maggi Hambling, a lovely small study by Peter Greenham, and a large drawing by Sandra Fisher. The invitation has also flushed out some real curiosities in the early work of artists now known for rather different things, most particularly a splendid portrait of his Father by John Hoyland.

Angela Flowers is showing some choice examples from the Kobal Collection of Hollywood Studio Portraits of the 1930s and 1940s (until May 15), the work of Hurrell, Bull, Willinger and others, and it is by no means the first time these seductive creatures, Garbo, Dietriech, Harlow and the rest, have returned to haunt us in this form, nor the first time I have felt moved to mention them. No doubt I shall be seduced again, for I am extremely susceptible and why not. It is remarkable and encouraging that what was once considered nothing more than mundane and expedient hack work should have been done so well that work itself has as it were insisted upon its own survival.

In the past I have written at some length on the work of both Allen Jones and Hamish Fulton, who together now occupy the Waddington Galleries with their recent work (until May 22), so a bare mention here should not be read as indifference.

Jones is showing a large group of new lithographs and these in any case seem to close off his preoccupation with the audience and the stage; and since his watercolours, splendid though the best of the larger ones are, do not really go beyond a declaration of intent, this is perhaps simply a show to see and mark.

The Fulton's are rather different a case, for his work is never less than definitive, and these are as accomplished and considered as ever; and yet the work, if it develops at all, does so by the nicest, the subtlest of stages. A large, single photograph of the remote and desert landscape, and a text, disarmingly simple and direct, subscribed, and that is all we are given, an ambiguous, teasing and ironical conjunction. They are very beautiful, suggestive and oddly disturbing things.

Half Moon

## W.C.P.C.

by B. A. YOUNG

Nigel Williams has added a verse epilogue at the end of his new play. "I didn't want to read this," Robert Stephens said, having done so. "It was just to please our lawyers." The burden of the epilogue was that all the characters in the play were fictional. As all but one of them are homosexual, and all but one of them (not the same one) are policemen, the lawyers' advice was probably good.

The one who is not homosexual (or "queer," as apparently they still say in the Force) is the new constable PC Simon, what they call a good-looking lad, resolutely played by the good-looking Phil Smeeton. After an initial interview with Chief Inspector Feaver (Leonard Fenton) he is posted to ISQ, a secret branch dedicated to clearing the country of vice. On duty at the local public lavatory, the first person he detects in indecent behaviour is committing it with his own Sergeant Harris (Bill Stewart).

Simon rightly takes the matter up with the Chief Superintendent, but he makes no progress, for the Chief Superintendent is queer too. There is always a man higher up, though—Commander Westwich, in charge of the whole shoot. It doesn't take long to discover that the Commander (Robert Stephens) is as queer as any of them. In spite of all temptations to belong to other aberrations, Simon decides that there's only one thing he can do, and that is to expose the whole lot of them. With such powerful forces against him, he is not likely to get away with that, and he is duly set up for an arrest in the toilet with a well-known television player.

From this point on the play comes off the rails, for Mr Williams, unable or unwilling to devise a reasonable conclusion, takes refuge in farce. There is a drag party where Simon and his colleague PC Jamieson (Derek Thompson) both turn up dressed as brides. Westwich, confronted by a tape which Simon made as he prompted him to say something improper, sentences the whole squad to 24 hours' confinement to the Closet, which Simon is to guard.

Of course the wicked cops come out on top, though not before audiences will have had the pleasure of seeing Mr Smeeton take all his clothes off. But only twice in the evening is anything serious said about the possibility of queer police colluding with their victims. Clem Breen, the television actor (William Hoyland), had some sensible things to say about the relationship of sex and love; and the Commander, echoing the reactions at the Wilde case, says "if we all went about advertising it, what would become of order?" For the rest of the evening, we are mostly dickering about among the gay jokes of the alst half-century.

But at any rate it is beautifully acted all through under Pam Brighton's direction, and the audience loved it.

Covent Garden

## Rite and Giselle

by CLEMENT CRISP

Performances at the week's end brought Judith Howe as a Chosen Maiden new to the agonies and ecstasies of *Rite's* immolatory dance: Anthony Dowell returning as hero of *Shadowplay*; and a revival of *Giselle*. Miss Howe has the heart of the matter in her. She cannot yet, naturally enough, rival the cumulative dynamics of Monica Mason's tremendous interpretation—study in physical pacing and stamina as well as in stripped-to-the-bone dramatics—but she has the technical capability and a feeling for the role's hieratic outlines, its totemic boldness, which are clear and convincing. She seems at ease with the sophisticated rhythms of the solo, every muscular response sharp and true, and she catches very well the girl's first frisson of terror when the fatal choice has been made; it is an interpretation vivid, valid, which we must be allowed to see again.

To see Anthony Dowell seated again beneath the banyan in Michael Annal's set is no less vivid, and still compelling 15 years after the role was made for him. The youthfulness is still there, but shown with far greater art. There is no loss of an essential innocence—though the ballet is about exactly that —and magnificent gains in subtlety of playing and in the way in which Mr Dowell manages the boy's confusion and unease as he undergoes homosexual and heterosexual assault. Nowadays *Shadowplay* looks thin, and constrained by its score: yet certain scenes—the battle with the female, the grandly still ending — are potent, and while Mr Dowell wants to dance it, and while Merle Park continues to appear as the Kali-celestial, it justifies its place in the repertory. These are superb performances.

*Les Biches*, which completes the triple bill, needs no repertory justification; instead, it cries out for subtlety and lightness of touch, and respect for its social insights. I would venture to suggest that Markova and Dolin be invited to coach the Royal artists in a ballet which these great dancers knew well with Diaghilev and with their own company.

There is an "apostolic succession" in balletic interpretation, a handling on of nuance and stylistic properties, let alone of choreographic exactness, which Covent Garden seems to eschew, to its own loss and to the impoverishment of its dancers.

The absence of this continuity is nowhere more apparent than in the company's enfeebled and, to my eyes, unworthy staging of *Giselle*, which was revived on Saturday. Karsavina called it "a holy ballet;" the Royal Ballet evidently views its first act as an operetta to be played with a grinning rictus of false charm, in costuming ludicrous and vulgar.

Merle Park was the Giselle, giving an interpretation of determined brightness in the opening passages, but gaining in stature so that the mad-scene had sharp nervous force; David Wall, the Albrecht, and Stephen Jefferies, the Hilarion, are such powerful dramatic players that the conflict between them wins most of the honours of the evening.

The corps de ballet, rid of their sickly first act frocks, are models of uniformity, as wilis, but the first act demands to be re-designed, and something of Karsavina's "holiness" (and Markova and Dolin's poetry) must be instilled into the production.

Belgrade, Coventry

## A Woman of No Importance

by B. A. YOUNG

It has always to be remembered that this is a serious play, as serious as its contemporary *The Second Mrs Tanqueray*. The jokes are there like the Grave-digger's jokes in *Hamlet*, to make sure the audience is paying attention. They are almost all jokes about the frivolity of Society, and no doubt Wilde wanted to remind Society how frivolous it was so that, having done so, he could draw their attention to the position of deserted women and illegitimate children.

Now that there is so little frivolous Society in the stalls, the jokes must rely on their own merit, and in a way it seemed to me a good thing that in this production, directed by Michael Boyd, they were unconvincingly spoken while the earnest events following Mrs Arbuthnot's revelation to Gerald that he is Lord Illingworth's bastard son are played more intensely. In the first act John Dicks suggested that Illingworth, with his silver-grey tie and waistcoat under his evening tails (and he has the cheek to criticise Gerald's neck-wear!) was straight from the stables, but in his last encounter with Mrs Arbuthnot he might just be a man of birth and education.

Lady Hunstanton's guests gave the jokes an almost operatic pointing, the humours emphasised as if they were being delivered to a Borough Council meeting. The old in the audience laughed when they recognised one; the young found it hard to recognise a joke at all. I long to hear these lines thrown off as if they were written by Alan Ayckbourn. Only Vivienne Dixon as Mrs Allonby and Charmian Eyre as Lady Hunstanton got much out of them. As for poor Hester, kept mercilessly waiting on the touchline by the heartless Mr Wilde, there's not much to be done with her. Ros Simmons does what there is.

Heather Canning's Mrs Arbuthnot suggests Minerva, tall and golden-haired, laying down incontestable rules from Olympus. As her son, James Newall has to skip about the set like a mountain goat, charging at Illingworth when he has "insulted" Hester, but saying nothing to Kelvil, MP (Richard Cordery) for smoking his pipe among the ladies. His affections don't show much beyond the words. Incidentally, he has what must be the world's earliest fountain-pen.

Trudy Marklew's curious permanent set has a 10-foot-high birdcage centre stage, containing Lady Hunstanton's white garden furniture for the first half of the evening and Mrs Arbuthnot's pretty English home, covered in dark brown cloth, in the second. (Lady Hunstanton's admiration for this sounded a bit ironical.) Most entrances are made down a flight of broad steps that lead to Lady Hunstanton's drawing-room all right, but afterwards where? Does the road wind uphill all the way?

## Robyn Archer returns to London

The Australian actress and singer, Robyn Archer, returns to London on June 1 in her own show, *A Star Is Torn*, at the Theatre Royal, Stratford East. The show celebrates the careers and artistry of eleven women who have played a large part in the history of popular song: Marie Lloyd, Bessie Smith, Helen Morgan, Judy Garland, Billie Holiday, Edith Piaf, Marilyn Monroe, Patsy Cline, Dinah Washington and Janis Joplin.

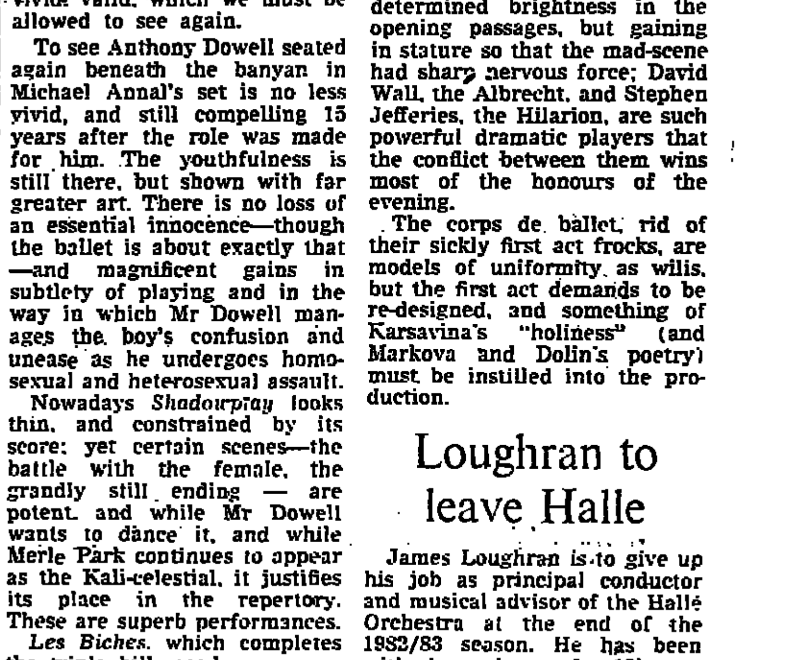
Since her last visit to London in *The Pack of Women*, Robyn Archer has completed a national concert tour in Australia and released an album of Brecht songs on which she is accompanied by the London Sinfonietta.

## Loughran to leave Halle

James Loughran is to give up his job as principal conductor and musical advisor of the Hallé Orchestra at the end of the 1982/83 season. He has been with the orchestra for 12 years and has taken the decision in order to accept more offers to conduct other orchestras and operas.



## F.T. CROSSWORD PUZZLE No. 4,862



ACROSS

1 and 6 across Finalist came in staggering—we report it (9, 5)

9 Let down one of Gray's winders (5)

10 Very loud cap for going off—as golfing characters display (3-6)

11 Glen's blue period? (10)

12 Chamber for Othello's retirement (4)

14 Strong-armed sailor died delirious (3-4)

15 Chap on cocaine—abominable creature! (7)

17 Cut short the dog-end (7)

19 No settlement time for men? (4-3)

20 Day-rent for insipid type (4)

22 Yard showing most superior bitterness to worker (3-7)

25 He has three sheets in the wind (in reference-books, merry) (9)

26 Flower of the asphodel items (5)

27 Ordinary people going round Italy (5)

28 Bandages, etc, put on beds? (9)

DOWN

1 Polished field-work (5)

2 Fresh spring for each, daily? (9)

3 Plant manager such as Jack Sprat? (10)

4 Perhaps find use for what is brewed (7)

5 Leg-irons not right in military force (7)

6 Skip the journey (4)

7 Island attempt to produce fruit (5)

8 Preserve wealth—possibly out of salary (4-5)

13 Perhaps do role in G & S—this one? (10)

14 Harsh punishment for named persons only (4-5)

16 Timeless reflection coming between (9)

18 Wrongly paroled, one is spotted (7)

19 Someone was willing to give him something (7)

21 British early risers facing 5? (5)

23 Lachrymal-sounding rows (5)

24 Carrier of tea-things sounds very French (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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Tuesday May 4 1982

# Measured escalation

THE RATIONALE for British policy towards the Falklands ever since the crisis broke out a month ago has been a combination of diplomatic, economic and military pressures designed to persuade Argentina to withdraw from the islands and then seek a negotiated solution.

The economic pressures were intensified last Friday when the U.S. publicly came off the fence and joined in economic sanctions. The search for a diplomatic outcome can be said to have been kept up by the visit of Mr Francis Pym, the Foreign Secretary, to the United Nations. But in the last few days it has been the military approach that has come to the fore.

The engagements so far have been limited. Neither side has committed anything like all its available forces to battle. Yet the British have bombarded the airport at Port Stanley and there has been a readiness to shoot both at sea and in the air which suggests that wider hostilities could be very near.

### Blockade

At the same time, it can hardly be argued that any of the pressures exerted on Argentina to date have had much effect. There is very little sign from Buenos Aires either of a desire to resume negotiations or to withdraw from the Islands on conditions remotely acceptable to Britain.

The military option thus looms ever larger. Mr James Callaghan, the former Prime Minister, said in the House of Commons last week that Britain had the capability for a choice between a blockade of the Falklands and an invasion and came down in favour of the former, largely on the grounds that it would risk fewer lives.

By now the blockade is already in force and is not being effectively challenged. The Falklands are to all intents and purposes cut off from Argentina. But in the hostile environment of the South Atlantic such a policy cannot be continued indefinitely. The task force cannot go on sailing round the islands for months on end.

The military side of British policy so far has been characterised by measured escalation: first the despatch of the submarines and the declaration of the maritime exclusion zone; then the sending of the surface fleet and the Harriers, with others still on their way. This principle of gradually increased response should not be lightly abandoned. It is at work now in the attacks on Argentina's ships in the area and it may have some way to go before it comes to full-scale assault.

### Important

We no longer doubt, however, that the assault may be necessary. We hope that there may be a few more days of steadily mounting military pressure in which there could be a change of mind or a change of regime in Buenos Aires. But there is little ground for optimism.

Quite soon the military commanders may advise that the invasion of the islands is feasible without great loss of life. Under those circumstances we would support such a decision, though the military advice will have to be constantly weighed against the political risks.

In the meantime, it is important that the political objective is kept in mind. The search for a diplomatic solution will have to be resumed whatever the outcome of the present conflict. The Government therefore needs to make it clearer than it has done so far that it would have no objection to going to the International Court of Justice, nor to any of the other solutions, such as UN trusteeship, which would lead to a diminution of British sovereignty over the islands. It is essential to maintain as much international and domestic support as possible for what is being done.

### Informed

As for Mr Michael Foot, the leader of the Labour Party, his decision not to enter into confidential talks with Mrs Thatcher is understandable. It might inhibit what he has to say in the Commons. Besides, we trust that the Prime Minister will keep the House and the country fully informed of all latest developments.

# Over-capacity in EEC steel

IT WOULD be easy for the ten EEC Industry Ministers who meet in Brussels today to look no further than the steel regime proposals that will be placed before them by the European Commission. But it would also be short-sighted.

On paper, the Commission demands look important enough to warrant the attention of the EEC Council of Ministers. In practice, though, they are largely procedural stuff which should not eclipse much weightier and more difficult decisions urgently needed if Europe's steel industry is ever to recover from what is now eight years of wasting disease.

### Disciplines

The renewal for 18 months from end-June of the EEC steel production and prices regime, together with modifications to the mandatory and voluntary controls it consists of, is not an end in itself. First imposed on Europe's steel producers in the autumn of 1980 to halt a spreading price war, it was designed to be an orderly method of restructuring the steel industry.

The EEC disciplines limiting output and sustaining prices are intended as a shelter to help the hard-hit steelmakers while they undertake major capacity cuts. It has, admittedly, been a rather leaky shelter, for such is the seriously depressed state of the steel industry that, in spite of the regime's benefits, the major Europan producers last year suffered a collective loss estimated at about $2bn.

But that does not mean that *determined closures of steel* plants should not go ahead. If anything, it emphasises the urgent need to reduce an overcapacity

The European Commission's declared target is that steel's surplus capacity should be reduced to no more than 15 per cent. As the EEC's steel output is now running at around 125m tonnes a year on installed capacity calculated by Brussels at just over 200m tonnes, there is a long way to go. Not long ago, the Commission revealed that by 1984 the industry's restructuring effort's will have cut that figure to 197m tonnes.

By the end of the following year, 1985, EEC governments are pledged to halt bail-out funding and state aids to their steelmakers. So the result could be that unless the industry hurriedly embarks on a genuinely radical restructuring programme all but the fittest steelmakers will expire in a severe *industrial* shake-out in the mid-80s. This is the dramatic threat which should, at any rate, remain uppermost

Predicting the steel industry's collapse on the basis of the collision course between sustained over-capacity and the phase-out of subsidies risks ignoring the "political flexibilities" that EEC governments may opt for in coming years. And it is the idea that the code of rules on subsidies to steelmakers—agreed last year by the Ten after protracted wrangling—may become vulnerable which now most worries Whitehall. Britain has since 1979 sacrificed 40 per cent of the country's steel jobs in the cause of restructuring, and is increasingly concerned that its EEC partners may, through some future political finagling, escape that social cost.

The absence of more radical proposals from the agenda of today's council meeting may reflect the difficult position of Belgium, the current president of the Council of Ministers. The Belgian Government is under particular pressure from the European Commission to hold down steel making capacity. It also finds it particularly difficult to comply: only recently Belgian steelworkers were rioting on the streets of Brussels.

### Collapse

To British eyes, though, the fact that Belgium has so far shed only 7 per cent of its steel jobs is a major irritant. And France's loss of only 25 per cent of steel employment in recent years is made no more palatable to the UK by last week's news from Paris. This revealed that under the new French restructuring plan for 1986 will see output at 20m-24m tonnes and by 1990 the figures will be 19m-25m tonnes. As France's 1981 production was 21m tonnes, these figures suggest that France, too, is clinging to the idea that a return to the good times for steel may be just around the corner.

It is both the potential collapse of European steelmaking in the coming years and the continuing cost of the present degree of overcapacity which should determine the course of today's ministerial meetings. It is disturbing that a further Council on June 8 may well be needed to reach agreement on the details of the steel regime being discussed today — let alone tackle the underlying problem.

ARGENTINA DIGS IN

# A crisis of identity

By Hugh O'Shaughnessy, Latin America Correspondent

A volunteer waits for a Ministry of Defence official to complete his papers in Buenos Aires.

"WE HAVE got them back at the cost of Argentina's blood." The message shouts out of hundreds of thousands, perhaps millions, of posters stuck in houses, shops and offices up and down Argentina.

The poster shows the outline map of the Falkland Islands coloured at last in the blue, white and blue of the Argentine Republic. Like the advertisements in the Press and on television and virtually all comments in the media, it drives home incessantly the point that "the Malvinas" have been reclaimed by the nation in an operation which for Argentina is the modern equivalent of the Quest for the Holy Grail.

The Grail having been repossessed—800 miles out in the South Atlantic—there can be no giving up, no compromise, no backstairs diplomatic sell-out. The temper of the majority of Argentines can well be summed up in the latest number of the ultra Right-wing and ultra nationalist monthly, Cabildo. Its cover shows a military parade and mass demonstration in favour of the invasion of the Falklands with the caption: "Towards the Restoration of Greater Argentina."

Inside, the editorial says: "The word of command of the moment, the only word of command is: intransigence. Argentina. Argentina, the Argentine nation, cannot give up anything, cannot give up the tiniest bit of what it has gained for ever. For to give up is to give in. Give in not only to the English, but also to the ghosts of death which gnaw at the nation's heart."

*Cabildo has sold out on many* news stands and its sales are a measure of the unrealistic nature of the hopes so widely and optimistically expressed last month—that reasonable men of good faith could find a compromise solution to the Falklands crisis and the withdrawal of Argentine forces from the Islands.

In fact the Falklands issue was always much than a mere political adventure undertaken by a particularly ambitious military dictator in order to divert the attention of the people from inflation, recession and other domestic difficulties.

It was, and remains, such a diversion. It is also a far more ambitious attempt to unite a deeply divided nation in an affirmation of its national identity, an identity which has in the past been uncomfortably indistinct and painfully controversial.

If he is to succeed, General Galtieri must carry the overwhelming mass of Argentines with him. He must therefore carry off a difficult balancing act. On the one hand are the majority of Argentines who look back with nostalgia to the popularism of the late General Juan Domingo Peron when the working man came into his own. On the other is the present, relatively small, but very powerful social and economic establishment which is violently anti-Peronist.

He must also placate the nationalist sentiments of the Peronists—and the vast majority of the trade unions which they control—without allowing them to swamp his own military government which is viscerally opposed to Peronism. To most *of the military Peronism spells* political and economic chaos and degradation for Argentina.

At the same time he must maintain some sort of cohesion among the three armed forces which have for years been at daggers drawn with each other. And he must protect his own flanks against rival brother officers particularly in the army who would quickly supplant him if he were to make any political or military blunders. Finally he must also cherish the damaged Argentine national psyche.

Few countries, certainly no country of Argentina's intellectual sophistication, can be burdened with so many self doubts as Argentina. Few, either, can be oppressed by such a sense of national failure.

At the end of the last century Argentina, with its seemingly limitless land area, was an El Dorado which attracted immigrants not just from Europe in general, and Italy in particular, in their hundreds of thousands, but also in some number from a United States still bruised and bleeding from the Civil War.

Fortunes were made quickly and easily by those who had land on which to grow grain for the city dwellers of Europe or who could sell meat to Europe in an international trade which was growing rapidly thanks to new and cheap ways of refrigerating cargo. Buenos Aires quickly became the biggest and most sparkling city south of the equator.

But the sudden immigration—and the sudden wealth—seemed gravely to unsettle the national psyche. Were the Argentines, a majority of whose ancestors were now of Italian rather than Spanish origin, to see themselves as the most powerful and enlightened of the Latin American Republics? Or were they a cultured European society exiled at the end of the world?

And if they were Europeans, were they British like the entrepreneurs who developed their country and whose outdoor sports and whose tweeds, flannels and other masculine fashions they adopted; or French, like their intellectual mentors; or Spaniards, like their remote forefathers; or Italians whose muscles turned British-drawn blue-prints into *railways, ports and factories?*

The debate about the political and social indentity of Argentina was played out in earnest from the 1910s onwards. Hipólito Yrigoyen, became President during the First World War and represented the aspiring middle-classes and some of the working class for the first time. But in 1930 his Radical Party was displaced by the first of a series of military dictatorships which have lasted *with intervals down to today.*

These dictatorships took on a populist aspect in 1945 with the rise of General Juan Domingo Peron whose radical demagogic appeal to the working classes—his *descamisados* or shirtless ones—fascinated and on occasion overwhelmed Argentina till his death during his second period of office in 1974.

Under conservative military and Peronist rule alike Argentina was never able to make good the promise of prosperity which had lured the immigrants in the 1890s. Both sorts of government precipitated waves of emigration. Intellectuals, Jews, labour leaders, aristocrats and socialists in turn sought refuge abroad as successive dictatorial regimes took power in Buenos Aires.

Inflation became commonplace and toleration the exception. Buenos Aires today has little left of its glitter and Argentines still face the unresolved problem of their national identity.

The military leadership saw *national conscription and devotion* to the flag as one valuable way of developing individual and national character in a bitterly divided nation.

General Galtieri last month decided to gamble on the success of an offensive which would demonstrate, if it came off, that Argentina had at last come of age, knew its own identity, and was strong enough *finally to defeat a country which* had until recently been one of the world's great empires. The whole country was thus embarked on a test of its manhood.

If, as seems unlikely, the offensive succeeds, Argentina's neighbours—particularly Chile, Uruguay, Paraguay and Brazil — will most likely be the next to experience the aggressive exuberance of a newly confident nation.

If, on the other hand, Britain recaptures the Falklands, the Argentine psyche will have suffered a terrible blow. The ghosts of death will once again be gnawing at the nation's heart.

# A lack of leadership begins to be felt

By Andrew Whitley in Buenos Aires

ARGENTINES have for days now been treated to a barrage of Government propaganda on radio and television which has left them confused and fearful.

The disappearance of their national leaders from public sight since fighting began in the early hours of Saturday morning has added to the mood of uncertainty. With the exception of an emotional—and rambling—address on television late on Saturday night by General Galtieri the silence has been complete.

The explanation given by the few officials who are contactable is that, of course, these are military men who are spending a great deal of time in Argentina's equivalent of the War Operations Room. But the lack of leadership at this time is beginning to be felt.

With no one to give a lead there have been none of the big public rallies which marked the weeks of frustrating negotiations leading up to Saturday. Curiously, the only public demonstrations of solidarity in Buenos Aires have come from minor, special interest groups: the Japanese-Argentines, Paraguayan immigrant labourers (the gastarbeiters of Argentina) and the Evangelical Church, its neatly dressed congregation waving flags and smiling nicely in the autumn sun after Sunday service.

Flag and ribbon sellers were having a poor time in the Plaza de Mayo, the capital's main public square, yesterday. Unsold items of "patriabilia" hung like washing drying on a line in the deserted square. A few cars toured the streets pressing their horns, but the only excitement seems to have been at the football stadium where Mrs Thatcher, looking like Guy Fawkes, was burnt in effigy.

Parts of the capital had their first blackouts over the weekend. But as they were limited and no one had bothered to inform the public that they were going to happen, the assumption was that there had been a simple power failure. Outdoor music has been banned out of respect for the fighting men, but otherwise there are few obvious signs of war.

Young men under the age of 35 are reportedly not being allowed to leave the country and the reservists in the Class of '61 have been called up, following their juniors in the Class of '62 who received their call-up papers a few weeks ago. Failure to enrol is severely punished.

To keep up morale, 90-second propaganda shots interrupt television programmes such as Charlies Angels and Bionic Woman at regular intervals. The torch of liberty encrusted with military emblems is superimposed on top of Farah Fawcett; then, to the theme tune from "Chariots of Fire"—Britain's prize-winning film extolling the virtues of faith, courage and patriotism—a fighter aircraft is seen taking off from Stanley Airport. Fade in a naval gun firing "somewhere at sea" and then the flag fluttering bravely in the breeze and it's back to Miss Fawcett.

Another incongruous note was the incidental music played during a theatrical performance on Sunday night. As the audience fell about over surrealistic jabs at old-fashioned Catholic morality, "Land of Hope and Glory" (without the words) came across the loudspeakers.

The joint Chiefs of Staff have laid on an efficient press room at the Sheraton Hotel where most foreign journalists are staying. The only problem is that the spokesman, Captain Enrique De Leon, rarely has any facts to back up the Government's claims.

For two days the junta has promised to release the identification numbers of the two Harrier jump jets which Argentina says it shot down on the first day. Telam, the official news agency, reporting from the Falklands rather gave the game away by saying that the British planes had "plunged into the sea"—the same formulation used by Palestinians when they claim to have shot down Israeli jets over Lebanon.

Nor have the identities yet been disclosed of the pilot Argentina says it has captured alive or of the dead body in its army's hands.

## Men & Matters

### Irish re-jig

Fingers are being kept firmly crossed in Dublin property circles this week following the collapse last Friday of the Gallagher Group, one of the largest Irish private property companies, run by 30-year-old Patrick Gallagher.

The full extent of the damage will not be known until receiver Laurence Crowley (Ireland's Sir Kenneth O'Cork, as it were) has had a few days to probe. Gallagher says the crisis is one of cash flow rather than solvency with assets valued at £50m and debts at something over £30m.

But the real nightmare for the property men is what might happen if some of the group's big portfolio of central Dublin sites are sold off at bargain-basement prices. They fear a wholesale lowering of values which would knock some unsightly holes in other companies' balance sheets.

Patrick Gallagher's £2.2m bloodstock interests, including the 730,000 guineas breeding mare, Arkadina, are up for sale, and he has pledged that if necessary the family's small collection of stately homes will be thrown in to repay creditors. The fate of the reputed £100,000 wine cellar he put down to beat the last Irish austerity budget is being watched with interest by local wine buffs.

Gallagher once said that two of his pleasures were picking winners at Ascot and flying in Concorde. It is now up to the receiver to determine how many of these he can still afford, if any.

### Little Germany

A suitable centre for cultural and economic links between Britain and West Germany in London has long been lacking.

The VW Foundation has now come to the rescue. It has bought a splendid 17th-century Bloomsbury Square mansion which was rebuilt and refurbished by Nash, and which has some marvellous painted ceilings. By the autumn the old house will be in good shape to accommodate the German Historical Institute in London, the German Academic Exchange Service, and the Anglo-German Foundation for the Study of Industrial Society.

The house has been empty for six years and has suffered depredations from squatters. But all that is now being put right.

It should be an elegant venue for politicians, businessmen, and academics to meet at conferences and seminars in the running programme managed by the foundation.

Visitors need not be put off by the legend across the front of the building below the cornice: Pharmaceutical Society of Great Britain. The society was a former occupant. The lettering is well executed and the Anglo-German movement believes it would be an act of vandalism to have it removed.

### Simple bidding

Anyone new to the oil business who finds the rigmarole of bidding for Chinese offshore contracts too daunting should pay close attention to the Hong Kong Standard's daily column "learn Mandarin with Chang Dan."

In lesson 127 About Bidding (Zhao Biao) Chang's two stalwarts Mr Roberts and Mr Liu show just how simple it really is. I omit the Chinese version for reasons of economy:

L.—Mr Roberts, I have a piece of good news to tell you.

R.—What is it? It seems so surprising.

L.—The General Marine Petroleum Company of China has published the advice note of the joint exploration of marine oil.

R.—Really good news. Please tell me something about it.

L.—Well, the area for bidding is very large. It covers the Yellow Sea, Beibuwan Basin and Yingehai Basin. The total area comes to 42,700 sq km. It is divided into 17 districts for bidding.

R.—Well, our company will be able to display its capabilities.

L.—All petroleum companies of the world can apply for the bidding.

R.—From which department can we get a copy of the bidding advice note?

L.—Directly from the General Marine Petroleum Company of China.

R.—Then I have to trouble you to show me there Mr Lui.

L.—Right now?

R.—Yes. Let's go at once.

### Harvested

A Wall Street wag remarked when Archie McCardell was made chairman of International Harvester in 1977 that he would need one of his own tractors to cart away his loot.

American business gasped at the generosity of his personal financial arrangements and has been following his career with uncommonly close interest ever since.

Now that he has resigned, leaving behind him a more lively company than before he arrived but one twice as deep in debt, the comments on his five years at Harvester are already tending to be critical and are likely to be numerous.

When he joined from a top job at Xerox the Harvester board agreed to lend him $1.8m to buy 60,000 common shares in the company. And it was agreed that he would get his money back if he managed to lead his troops out in front of competitors—Ford, General Motors, Deere, Caterpillar, and Massey-Ferguson. He was also paid a $1.5m "signing-on" fee, and a starting salary of $500,000 a year with bonuses linked to performance.

Within three years the board reckoned he had qualified for his prize and forgave him the $1.8m loan. That gesture was made in spite of Harvester running into a $400m loss over the nine months as a result of a long strike in the U.S. McCardell pursued his cost cutting program emby taking on the auto workers' union. He lost decisively.

One of his last big pitches for Harvester was to go to Madrid in January to try to keep alive a $200m engine plant project to be built in partnership with the Spanish government. The deal collapsed and the world was reminded that Harvester was desperately short of funds.

### Bill of fare

Getting the new Canadian constitution through the British Parliament seems to have involved feeding more than facts to Westminster's MPs and peers.

Some of the costs of the operation have been emerging in Ottawa where a written parliamentary answer says that Pierre Trudeau's repatriation team spent around £21,000 in London on drinks and meals for politicians and journalists while pressing on them the merits of the legislation.

The Canadian Government says it is impossible to work out the total cost of pushing the package through Westminster since lobbying was often mixed with other official business.

Reeves Hagan, head of the Government task force, and an assistant, who were sent over from Ottawa, ran up expenses of £41,000 during their time in London and nine people, including secretaries and public relations specialists, were hired on a contract basis to help oil the legislative process.

**Observer**

FINANCIAL TIMES SURVEY

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# WORLD BANKING

As recession persists and nations and industries struggle, bankers worldwide are having to face challenges and problems on many fronts–not the least of them interest rates at unprecedently high levels

CONTENTS



### THE WORLD'S BIG BORROWERS

| | Gross $bn | Net $bn | 1980 GNP $bn | 1980 Pop. m |
|---|---|---|---|---|
| Mexico | 49.9 | 40.0 | 144 | 67.5 |
| Brazil | 45.6 | 41.0 | 243 | 118.7 |
| Argentina | 21.6 | 15.8 | 66 | 27.7 |
| Venezuela | 21.3 | 3.4 | 54 | 14.9 |
| Spain | 20.7 | 3.3 | 200 | 37.4 |
| South Korea | 15.6 | 12.9 | 59 | 38.4 |
| USSR | 15.4 | 10.9 | 1,212 | 267.0 |
| Poland | 14.2 | 13.4 | 140 | 35.8 |
| East Germany | 9.7 | 7.8 | 121 | 16.9 |
| Yugoslavia | 9.6 | 6.9 | 59 | 22.3 |
| South Africa | 9.4 | 7.8 | 67 | 29.3 |
| Chile | 8.8 | 5.4 | 24 | 11.1 |
| Greece | 8.2 | 2.8 | 42 | 9.3 |
| Philippines | 6.9 | 3.7 | 34 | 47.9 |
| Hungary | 6.9 | 6.1 | 45 | 10.7 |

Banks in BIS reporting area and branches of certain U.S. banks in certain offshore centres, external liabilities and claims, domestic and foreign currency.

Source: Bank for International Settlements; 1981 World Bank Atlas.

## Cost of money too high for comfort

**BY WILLIAM HALL; Banking Correspondent**

THE RISKS involved in international banking have increased significantly over the past 12 months and so has the competition, with the result that many of the 2,000-odd banks operating internationally must now be reviewing the *scale of their involvement.*

Since 1976 the flow of international lending across national borders has been growing at a regular 20 per cent a year. One of the big UK clearers, Lloyds Bank, has estimated that it rose by $315bn last year and will rise by $355bn in the current year but there are signs that banks are becoming increasingly cautious.

Clearly there are special risks involved when a bank takes a dollar deposit in London and lends the money "cross-border" to a customer in Brazil, for example. In normal domestic lending the bank has only to worry about the commercial risk, in that the borrower may be unable to pay.

With "cross-border" lending the bank must accept the additional risk that even if the Brazilian borrower remains solvent, something may occur at the country level in Brazil which would prevent the servicing of the loan in dollars.

The risk of something going wrong at the country level is generally referred to as "sovereign risk" and it is clear that the days are gone when sovereign lending to Government entities was regarded as risk-free. Even if full-scale defaults can be avoided, it is clear that several borrowers face difficult periods of adjustment in the coming years.

The political and financial problems, first of Poland and now of Argentina, coming at a time when most economies are in recession and many of the banks' customers suffering from extremely high real interest rates means that many banks are drawing in their horns.

Already there are signs that the Polish crisis has cast a shadow over other East European economies and some are suffering from a withdrawal of short-term credit facilities. There are fears that the Argentinian crisis might produce similar problems for Latin American borrowers, which as a group owe international banks $115bn—well over twice as much as Eastern Europe.

The main problem for international banks is the unprecedented level of real interest rates in most major banking markets. The U.S. is the most extreme case where commercial banks' prime lending rates are *more than twice as high as the* underlying rate of inflation. Other major economies, however, such as those of West Germany, Japan and the UK, are also being hit by high real *interest rates.*

Many less developed countries (LDCs), in particular are being put under severe financial strain. For them, high real rates of interest, rather than the high price of oil, is now the central problem. At the same time the prices of several commodities, which underpin developing countries' exports, are touching new lows, exacerbating financial difficulties.

The Amsterdam Rotterdam Bank has said that 26 countries are known to be in arrears with external payments and the number seems likely to increase unless interest rates fall soon. Mr Geoffrey Bell, a director of merchant bank Schroders, estimated last December that as much as $50bn of debt was in the process of being rescheduled; Dow Banking in its latest annual report quotes a pessimistic prediction that in a couple of years up to 30 per cent of all outstanding Eurodebt will have to be rescheduled.

### Disappointments

In addition to these areas of concern, international banks have also had to face up to disappointments in a number of other areas:

● World trade, which over the past decade had been growing twice as fast as domestic production, fell by one per cent to $200bn last year, according to GATT. This compares with a 20 per cent increase in the *previous year.* At the same time there are signs of a strengthening of protectionist pressures in many countries.

● There was minimal growth in the major industrialised countries in 1981 and rising unemployment which added to social tensions. The growth rate in the Asia-Pacific region slipped by only 1 per cent to 4 per cent, demonstrating the resilience of that area. But in Latin America, Libra Bank, estimates that regional economic growth fell from 4.8 per cent in recent years to 1.5 per cent.

● The foreign exchange and money markets have continued to be extremely volatile. The three-month Eurodollar rate, for example, started last year at 17¾ *per cent, fell to 13¾* per cent in March, rose again to above 19 per cent in early August, fell below 12 per cent in late November, and then climbed back to 14¼ per cent on Christmas Eve. Foreign exchange rates were also extremely unstable, with changes of 10 per cent in a week and 40 per cent in a year for several currencies. Such volatility increases the risk of loss for banks, especially when they have failed to match their interest rate exposure.

● Capital ratios of many banks are falling at a time when their profits are under pressure; they have only limited access to new capital and their risk exposure is increasing. There is considerable variation between major banks in their exposure to sovereign risks but according to U.S. Federal Reserve figures for last June the nine largest U.S. banks had lent $45.7bn—equal to 195 per cent of their combined capital—to six major borrowers — Brazil, Mexico, South Korea, Argentina, the Philippines and Taiwan.

● There has been a marked deterioration in the corporate balance sheets of many multinational companies and the continuation of high real interest rates is, expected to hasten major bankruptcies and undermine debt rescheduling agreements which are based on the assumption that interest rates will fall sooner rather than later. Over the past couple of years or so banks have had to come to the aid of multinational companies such as Chrysler, Massey Ferguson and International Harvester; other rescues are in the pipeline.

### Characterised

It would be wrong, however, to overdo the pessimism. The combination of recession and very high interest rates which has characterised the past year is unlikely to recur with the same severity this year.

In addition, bankers are taking comfort from two interrelated developments. First, inflation is falling in virtually all the major economies: second, and more important, the price of oil has begun to fall.

Disruption of oil supplies and sharp rises in the price have dominated international financial markets over the last decade and been a major factor behind the sluggish growth and high rates of inflation in many countries.

It appears now that a fundamental shift in the demand and supply patterns for oil has occurred over the last few years and this, together with the declining influence of Opec in world oil markets, has raised the possibility of a significant drop in oil prices of 25-30 per cent in 1982-83, according to Morgan Guaranty.

It is predicting that the current account surpluses of the Opec countries, which amounted to *$113bn in 1980 and* $69bn in 1981, could be transformed into a small deficit in the current year.

The implications for the major international banks of the sharp reduction in oil money flows into their balance sheets has still to be thought through, but it is clear that any reduction in oil prices will prove a powerful tonic for the economies of both the industrialised nations and, more important, the non-oil LDCs.

It will stimulate economic recovery and should pave the way *for a reduction in real interest* rates. For the moment, however, the world's financial markets appear to be ignoring the improvement on the inflation front and the implications of the drop in oil prices because of concern about the U.S. Administration's lax fiscal policy and extremely tight monetary policy, which is the key to the current high level of interest rates.

The banks and their customers—whether sovereign borrowers or multinational clients —have still to take on board the implications of a prolonged

CONTINUED ON NEXT PAGE

**THE WORLD ECONOMY: Among major factors universally affecting the financial sector are foreign exchange movements, interest rates and Opec funds—discussed on this and the following page.**

# Wide-ranging swings put pressure on markets

GOVERNMENTS, companies and consumers may wring their hands in dismay at the vicissitudes of the foreign exchanges, but they realise that there is little point in calling for measures to control currency fluctuations.

It has become clear that the ship carrying the billions of dollars of short-term world investment funds has become too top-heavy for anyone to steer it properly. Even if Western governments and central banks could agree on who should take over the helm—which, as shown by the long-running Europe v America dispute over "benign neglect" of the dollar, they evidently cannot—keeping an even course would be difficult.

Complicated further by the *international political squalls* besetting financial markets everywhere, the job of stabilising the foreign exchanges is plainly impossible. Central bankers like Mr Gordon Richardson of the Bank of England talk of keeping "a hand on the tiller" to make sure fluctuations do not become excessive. But in truth they know they can do little but lash themselves to the helm and hope the storms subside.

Exchange rate swings over the past two years have been as excessive as anything seen since the break-up of fixed exchange rates a decade ago.

In contrast to previous periods of unrest during the 1970s, the latest phase of volatility has tended to move in an unforeseen direction. Because owners of short-term capital around the world have become preoccupied with interest rate returns—and also because Europe has suffered a political weakening vis-a-vis the U.S.—low-interest rate, low-inflation currencies have suffered the most. The dollar, which just three years ago was surrounded by crisis, has entered a phase of unprecedented strength.

This has had several important effects. First, traditionally inflation-minded countries like West Germany have had to redouble efforts to *protect their currencies* rather than to expand their economies. Consequent tight interest rate policies in Europe, designed to *forestall* further depreciation against the dollar, have tended to aggravate the world recession.

Second, the wide-ranging currency swings, at a time of very high real interest rates around the world, have sharpened the profit-orientation of many operators on the exchange markets. Industrial companies and central banks—from developed countries as well as developing—now participate on the exchanges to maximise their currency gains. This can sometimes have a "smoothing" effect. But more often than not the inclusion of additional participants all thinking along the same lines can have a "bandwagon" impact on capital movements which tends to exacerbate *fluctuations*.

The diversion of corporate energies to assessing foreign exchange risks rather than planing companies' manufacturing and marketing activities is another hindrance to productive investment and world economic *recovery*.

Another casualty of the increased profit-orientation of the currency markets has been the *commodity sector*. When inflation-adjusted returns of perhaps 20 per cent per annum are available to the currency punter who puts his money in the right dollar investments, who will bother to place funds in non-yielding gold? The spectacular fall of the bullion price during the U.S. currency's two years of ascendancy shows that the link between the dollar and the yellow metal has not, after all, been totally severed.

The third and furthest reaching effect has been felt on the political scene. The wave of tighter credit now sweeping in from the Atlantic is the fourth American-inspired interest rate surge which Europe has faced in the past two years. Arriving just at the time when EEC countries have started to make their own feeble efforts to cut interest rates to revitalise their economies, higher interest rates in the U.S. are intensifying the already strong disagreements between Washington and the EEC over defence, trade and East-West relations. It hardly augurs well for this summer's economic summit in Versailles.

The European and Japanese governments are particularly disturbed at the Reagan Administration's eschewel of all *intervention* on the foreign exchanges. Although the U.S. Treasury has termed its policy as one of "minimal" rather than "nil" intervention, the Americans have made no attempts to smooth the dollar's passage on the markets since the day of the assassination attempt on President Reagan just over 13 months ago.

Apart from all-pervasive interest rate differentials, the currency markets are also *influenced of course by the pull* of political events. This has been underlined particularly by the Polish crisis, which has badly hit the D-mark, and the dispute over the Falklands, which weakened confidence in the pound.

Central banks in Europe and Japan realise that they can do little to counter such influences merely by intervention. But they insist that the weapon of

## Foreign exchange

DAVID MARSH

official intervention should be kept in the arsenal to assist other measures of market control—something the Americans reject.

Japan, hit by a drastic—and almost totally unexpected—drop *in the yen this year has made* the largest resort to intervention over the past few months, spending up to $1bn a month to protect its currency.

The Bank of England stepped up dollar sales to keep sterling steady last month. The Bank of France has also drawn heavily on its reserves to finance intervention both against the dollar and against EEC currencies to counter the franc's weakness in the European Monetary System (EMS).

But—EMS intervention apart—the West German Bundesbank has practically given up currency action to steady the D-Mark. There are three principal questions about the foreign *exchanges which may be resolved* in coming months.

**1. Will Europe be able to maintain a gentle "de-coupling" of *exchange rates from the dollar?***

With world oil prices falling and recession continuing, inflationary pressures from a strong dollar are now less severe than 12 or 18 months ago. Consequently, the West German authorities, for one, are more relaxed about the recent fresh slide of the D-Mark to below DM 2.40 to the dollar. Similarly, the British Government is also less worried than it would have been a year ago at the pound's drop to under $1.75—particularly as sterling is still holding up well against the Continental currencies.

EEC central banks have therefore born some weakening of their currencies in recent weeks as the price of a further enlargement of the interest rate differential between the U.S. and Europe.

It cannot be assumed, however, that the more relaxed attitude would persist if U.S. interest rates, under the influence of the high American budget deficit and the Fed's tight monetary policy, were to rise much further in coming weeks. Corrective interest rate action by the Europeans (and Japanese) might then become necessary—even at the cost of a further setback to hopes of economic recovery.

**2—Will the EMS hold?**

The first three years of the EMS have been relatively peaceful. The absence of large-scale strains has been the result mainly of the emergence of uncharacteristic D-Mark weakness (itself a product of Germany's lurch into current account deficit), which protected the fundamentally vulnerable EMS members.

Over the past few months, *however, Germany's current* account has been improving rapidly. Additionally, severe unrest has hit the French franc as the exchange markets recognise that the Mitterrand government is unlikely to achieve much success in bringing down French inflation. Again, the 8.5 per cent devaluation of the Belgian franc in February—the largest parity change yet seen in the scheme's history—has raised worries that member countries may in future be tempted back to the old track of "competitive devaluation" as a means of restoring economic growth and alleviating unemployment. The EMS thus is certainly heading for its most crucial year since it was set up.

**3. Will exchange rate shifts aggravate world current account imbalances?**

Even before the latest spurt of the dollar the OECD was forecasting a sharp improvement in the German and Japanese current account performances this year — to surpluses of $2bn and $17bn respectively. After the sharp weakening of the yen, particularly, the extra competitive advantage given to the two countries' economies may further boost their 1982 surpluses.

Similarly, the delayed effects of the dollar's appreciation may start to work through with a vengeance on the U.S. current account this year. It is forecast by the OECD to move into modest deficit by the end of this year, but the shortfall could be higher if the dollar's strength persists, provided the American economy picks up as intended later in the year.

If the world current account picture starts to move out of line as a result of exchange rate disturbance, that could sow the seeds for more problems. Eventually, it could spark off a sharp correction of the present under-valuation of the D-Mark and yen. Another key question, however, will be whether the slowdown in U.S. inflation to well into single figures—only slightly ahead of Germany's—proves permanent. If President Reagan's success on the inflation front—itself partly a result of the strong dollar—persists, then the U.S. currency might remain the star of the foreign exchanges for some time to come.

# Cost of money too high

CONTINUED FROM PREVIOUS PAGE

era of high real interest rates.

Many bankers who made their mark in the 1970s during a period of negative real interest rates still believe the phenomenon of real interest rates is a temporary aberration.

If this is not the case then some painful adjustments will need to be made shortly. For a start, real interest rates have a nasty way of punishing mistakes, whereas negative interest rates hide some howlers. Many North Sea oil project financings over the past decade would have run into difficulties if the price of oil had not risen the way it did.

Negative interest rates encouraged companies to gear up their operations with excessive amounts of debts. As long as they could borrow at effective rates of under 10 per cent and expand their businesses to produce goods with a price inflation of 15 per cent plus, all was well.

But as soon as that process was reversed problems began to surface. Many companies are not earning enough on their assets to service debt costing them over 15 per cent a year—especially when their prices are only going up by single figures. Suddenly banks are finding that companies are being forced to borrow just to stay alive.

For many sovereign borrowers the problems are even more difficult. (They are also worse for the banks since they cannot call in the receiver.) Commodity prices are extremely sluggish yet LDCs face the prospect of sinking deeper and deeper into debt because they are having to service borrowings at exceptionally high real interest rates.

Morgan Guaranty has calculated for example that net interest payments of $20.2bn on external bank debts of $170bn will account for over half the expected current account deficits of the 12 biggest non-oil LDCs in the current year. A two percentage points drop in Eurodollar rates could save them $4bn.

During the past decade the external debts of the developing countries rose at an average 23 per cent per annum; commercial banks played a key role in helping these countries sustain high rates of growth and adjust to the sharp rise in oil prices. But it has meant that the banks now account for almost two-thirds of developing countries' debts, compared with 45 per cent 10 years ago.

For some international banks their long-term health is closely tied to the future of certain developing countries. Taking an extreme example, if Brazil and Mexico were to default on their debt then it would have the effect of wiping out the capital of the nine largest U.S. banks which together have lent $24bn to these two countries. It would also do lasting damage to many of the world's other banks.

By the same token, if South Korea were to go "belly up" as the bankers say, it would jeopardise close to a third of the same banks' capital and in the case of Argentina it would knock a quarter off their capital base.

Clearly many banks have a lot at stake. The uncertainties created by inflation during the past decade have meant that most borrowers have had to raise money on a floating rate basis rather than at fixed rates and this in itself has meant that the banks have become more heavily involved since they are the main providers of floating rate finance. Unfortunately they have little control over the level of interest rates if they float upwards.

Banks and borrowers are having to come to terms with a period of expensive money. Given the extent of their exposure and the impact it would have on their capital ratios if anything went wrong, many banks are taking a much more cautious line.

At the same time bodies such as the International Monetary Fund and the World Bank are being asked to shoulder more of the burden and commercial banks are becoming more heavily involved in co-financing arrangements with these types of bodies.

Meanwhile the pressure is on the bank regulators to treat the banks' problems with sympathy. It is clearly the wrong moment for bank supervisors to be too rigid in their reaction to the problems some of their flocks are facing in relation to a few of their customers.

# Subject to the play of two opposing influences

**Interest rates**

DAVID MARSH

TWO OPPOSING influences are tugging at international interest rates: falling oil prices and rising budget deficits.

This year's sharp weakening of the world oil market points to lower interest rates for two main reasons. It will tend to lower inflation in oil-importing countries and can also be expected over time to reduce the current account imbalances in the West which have led many countries to keep their interest rates high to protect their currencies.

So far, however, the financial markets *have reacted only* imperceptibly to the more hopeful implications of cheaper oil. Instead, they remain preoccupied by the question of the huge and rapidly mounting budget deficit in the U.S. At a time when the Federal Reserve is still fighting an apparently losing battle to control this year's runaway money supply, Washington's financing needs add to the burden on the U.S. credit markets.

In spite of a rapid drop in U.S. inflation to well into single figures and a recession which has now lasted around 10 months, prime rates remain above 16 per cent.

Real dollar interest rates of around a startling 8 per cent not only raise the spectre that the American recession will turn into depression. Additionally, they keep up the pressure on European countries to maintain their interest rates at relatively high levels. The impasse over the U.S. budget shortfall—which could rise as high as $180bn in the next financial year unless Congress takes remedial action soon—is thus one of the major storm clouds hanging over world economic recovery.

The U.S. Government's financing difficulties coincide with similar problems in other advanced countries. Budget deficits have been rising in Europe too. Since central banks have generally been keeping a tight rein on monetary policies to maintain the fight against inflation, large state borrowing needs have been a factor behind high interest rates in Europe too.

*According to latest calculations* by Morgan Guaranty, the general government borrowing requirement in 1980-81 was 3.9 per cent of Gross National Product (GNP) in West Germany, 1.2 per cent in France and 2.9 per cent in Britain. (The general government balance gives an internationally comparable method of calculating the fiscal stance. It includes the deficits of all levels of government, national to local, but excludes nationalised industries and the quasi-business activities of government.

The European deficits over the past two years compared with a general government shortfall of only 0.5 per cent of GNP in the U.S. In 1982, however, tough budgetary action in West Germany and the UK is expected to curb the deficits in these two countries to 3.5 per cent and 1.5 per cent of GNP respectively. The U.S. deficit is forecast to rise to 2 per cent; and that of France, under the expansionary policies of the new Mitterrand government, to 3 per cent.

The size of the U.S. deficit, in relation to the American economy appears small compared with those in Europe. In the smaller European countries, the deficits are much worse. In 1982, Morgan calculates, the shortfall will rise to 12 per cent of GNP in Belgium and 9.5 per cent in Italy. The deficit in the Netherlands will be 3.4 per cent.

To make a proper comparison of the effect of fiscal policies on the economy, however, the *lower rate of savings in the U.S.* has to be taken into account. Gross personal savings in the U.S. are about 7.6 per cent of GNP against 9.2 per cent in Britain and 11.7 per cent in France, according to Morgan Guaranty. This means that there is a smaller pool of savings in the U.S. available to finance the needs of the public and private sectors.

Government's problem is that state borrowing needs automatically rise during a recession. Social security payments go up; tax revenues come down; and when the business slowdown is accompanied by high interest rates, debt servicing costs soar as well. During the early stages of recession at least the private sector faces similar difficulties. Companies tend to borrow to keep afloat and to finance redundancy payments.

This element of "distress *borrowing*" appears to have inflated the U.S. monetary supply recently, just as it boosted the British money supply during the recession in the UK over the past two years. Additionally, private sector financing needs have been driven up in America by a spate of borrowings associated with takeover bids.

The unfortunate conjuncture of heavy borrowing demands from government and business automatically leads to "crowding out" of private sector fund-raising on the long term capital market. Business simply cannot *afford to pay long-term interest* rates at well above the current or predicted rate of inflation. This drives industrial borrowing to the short-term credit markets, which simply compounds the money supply problem.

Recognition that tightening the monetary screw further could be self-defeating has driven the British authorities to make important technical changes. The measures of the money supply have been widened and the targets made more "pragmatic" (that is, they have been raised); the Government has also started a programme of index-linked borrowing to cut nominal interest rate costs sharply.

In the U.S., irritation over Wall Street's increasingly obsessive reactions to sharply fluctuating weekly money supply figures has led the Fed to make some important reporting changes. This month it is starting to report the main measure of the money supply, the seasonally adjusted M1 figure, only on a four week moving average basis.

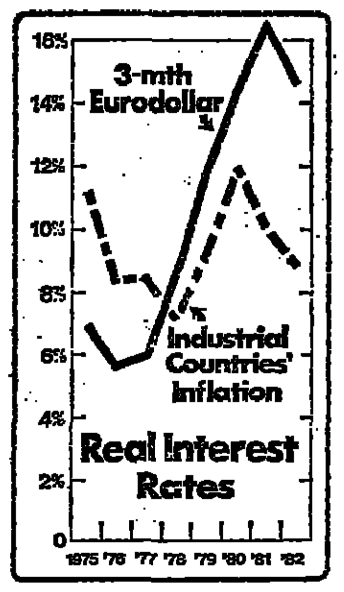
Only the unadjusted data will be available every Friday. This change might lead to less frenetic credit market activity and produce a more sensible method of monetary management. Echoing many of his European counterparts, M. Jacques Delors, the French Finance Minister, has complained bitterly of a system where "Jupiter falls from the sky every Friday"; and the president of the Bank for International Settlements has said bluntly that it is not a system at all.

Europe would be much more satisfied, however, with thoroughgoing improvements which go beyond technicalities. Apart from a reduction in the budget deficit, the EEC would like the U.S. to modify the tax-deductibility of U.S. interest rates, which would mean that tight American monetary policies would have a more immediate effect in curbing borrowing and bringing interest rates down.

One further important influence on interest rates—another drop in oil prices—may raise uncertainties among borrowers in coming months. The falling surplus of the Organisation of Petroleum Exporting Countries—which some observers predict could turn into a deficit this year—will lead to a sharp reduction in oil money flows on to the international credit markets.

This could lead to some marginal borrowers among developing countries paying higher interest rates. On the whole, though, the effect should be roughly counter-balanced by the fall in the financing needs of these countries as their oil import bill drops and export markets improve as a result of the hoped-for world economic upturn.

The oil states were replaced several months ago as the most important sources of funds to the Eurocurrency markets by international non-banking depositors—private companies and big institutional investors—*from Europe and other industrialised countries*. In a world where companies in most countries are now free of exchange controls, corporate treasurers manifestly have more influence over international interest rates than oil sheikhs.




# Too many variables for firm idea of oil money flows

**Opec funds**

RICHARD JOHNS

OVER THE past year the business of forecasting both demand for oil and the prospective balance of payments of the variegated group of producers belonging to the Organisation of Petroleum Exporting Countries has proved to be a very inexact science—to the point of not being one at all.

As recently as January, Citibank in its publication World Outlook, felt confident enough to estimate a net Opec surplus of $35bn. Its prediction presupposed the four states hitherto regarded as being endemically and handsomely in the black—Saudi Arabia, Kuwait, the United Arab Emirates and Qatar—being up $52.5bn and the other nine members, including Libya, which the pundits have always been divided over categorising, down $17.5bn.

At the end of the year the OECD revised downwards its projection for 1982 from $109bn to $67bn. There could be some red faces in its Paris headquarters. In February the Bank for International Settlements reported that in the third quarter of 1981 Opec members for the first time since the end of 1978 had become net borrowers.

Morgan Guaranty in its March issue of World Financial Markets, having had time to *observe the extent of the slump* in demand for oil and the glut on the market, became the first to predict an Opec deficit for 1982, estimating it at $10bn after transfer payments.

In retrospect, Citibank and OECD projections seemed surprisingly awry even allowing for the differences between capital and current account for many Opec members on the one hand, and between balance-of-payments and budgetary surpluses or deficits, on the other hand. Those variables themselves make the forecasting game a hazardous one, particularly over excess revenue available for investment in foreign assets.

The Amex Bank Review sensibly gave itself a wide margin of error in saying at the end of March: "Even if the present Opec production cut succeeds in holding prices steady, the overall Opec surplus is likely to disappear in 1982, and Opec may possibly run up a current account deficit close to $30bn." Its authors calculate each fall of one dollar in the price of a barrel, or loss of 500,000 barrels a day in production, as costing Opec members $6bn.

More recently the Wharton Group, which has established a name for itself in the business, forecast an aggregate current account deficit of $1.8bn, based on a $34 average oil price and Opec output of 19.2m b/d. Even if the reference is held, actual *realisations will probably* be at a lower level. In April production had dipped to below 16m b/d but the hope is that with a recovery in demand towards the end of the summer the final outcome will be in the order of 20m b/d.

One political factor that the economists appear to have failed to take into account, at least until very recently, is the enormous volume of aid flowing from Saudi Arabia, Kuwait, the United Arab Emirates and Qatar to Iraq as part of their campaign to bolster the regime and its war effort against Iran. By mid-February at least $16bn had been disbursed and $22bn committed.

Saudi Arabia is believed to have provided no less than $12bn for this cause. The Kingdom accounts for the greater part of Opec's net foreign assets. Those recorded as being controlled by the Saudi Arabian Monetary Agency have for several years ceased to show the total estimated at anything from $120bn to $180bn, with the consensus at $140bn to $160bn. Sama reported an investment income last year of $10.5bn, which would indicate a lower figure given the heavy concen*tration on dollar assets* which the agency has been trying to reduce.

Last year the Saudi surplus on current account was put at $42.6bn and as much as $36bn is said to have been transferred to Sama's portfolio—a large amount given the extent of the Kingdom's undeclared aid disbursements.

A substantial decline in Saudi Arabia's surplus in 1982 is certain. The Kingdom could even go into deficit.

The outcome depends upon not only maintenance of the $34 reference but also the rate of oil output, currently down nearly 35 per cent on the level in 1981 until November, and on crucial decisions on expenditure.

Kuwait, the significant surplus state and the one also with a long-standing objective of accumulating foreign assets as an alternative source of income, is definitely planning for a deficit which would mean using the income from investments abroad valued at no less than $75bn rather than drawing on the principal.

With the Government reluctant to make any substantial cuts in expenditure, an anticipated shortfall of 40 per cent in oil revenue for 1982, has led to an equivalent cut in the 1982-83 budget for the year beginning July 1. There is unlikely to be any shift from the investment in equities, *real estate and longer-term* instruments constituting the bulk of Kuwait's assets, particularly the money earmarked for the "reserve fund for future generations."

The United Arab Emirates—or more specifically Abu Dhabi—which has the third largest surplus of Opec member countries estimated at about $20bn also expects to be in the red in the coming year. Before the full extent of the crisis became apparent the UAE Central Bank said it expected income from investments to more than double to over $1bn in 1982, but that the UAE investible surplus would fall to less than $1bn compared with $2.5bn to $3bn in 1981 and $5bn in 1980.

The 1982-83 draft Budget published subsequently in March projected a $625m budgetary deficit. Last month the Government announced a cut of nearly half in foreign aid—estimated as running at rather more than $1bn.

Qatar, with $8bn or more in foreign assets, is a more inscrutable entity in financial terms. It will undoubtedly feel a squeeze but in its smaller way can be more flexible about its spending programme. This emirate regards its reserves as a mixture between a pool of funds to draw upon in emergency and a pension fund, but would be loathe to run any of them down.

In terms of its liquidity and assets Libya was as big a mystery as Iraq before the latter's demands on the conservative oil producers revealed its "liabilities" to have overtaken its assets, the usually well informed Petroleum Intelligence Weekly a month ago estimated Libyan financial reserves at $10bn, and classified it with the four Arab producers of the Gulf as one of the members which "should absorb the decline in revenues relatively easily due to their enormous financial reserves."

The arbitrary nature and extravagance of Libya's regime, as well as the fact that its oil output has been reduced to a trickle and is likely to be the last to pick up, leaves that open to doubt. So, too, do recent reports of payments delays by Tripoli. Indeed Colonel Gadaffi's tirades against Saudi Arabia, before the lowering of the output ceiling by the Kingdom and the adoption by Opec of a production programme, seemed to betray financial desperation.

With its financial reserves at rock bottom and its creditworthiness non-existent, Iran is a special and potentially hopeless case which will not necessarily be cured by its price-cutting. The other members of Opec will all increase their net indebtedness in the course of 1982 and some will have to trim their expenditure to a painful degree. The immediate and obvious casualty will be the *generous aid disbursed by Opec* as a whole.

THE RISKS: The economic troubles of nations as well as companies have heightened the risk factor for lenders. These two pages review the problems and the steps taken by the banking community to contain the degree of exposure

# Caution becomes watchword as debts pile up

## Sovereign risks

PETER MONTAGNON

NOTHING probably illustrates better the herd instinct of international bankers than their *attitude to Argentina.*

A few days before the Falklands crisis erupted some 2,000 bankers converged on Cartagena, Colombia, for the annual meeting of the Inter-American Development Bank. One of their main preoccupations at the time was Argentina, whose credit rating was coming under fire because of its falling currency, desperately weak economy and rampant inflation.

Yet the meeting gave those bankers a chance to meet Sr Roberto Alemann, Argentina's new Finance Minister, and they were so impressed by his plans to revive the country's economy that for two days the tide in the international credit markets actually turned in Argentina's favour.

Suddenly conversation at cocktail parties was dominated by tributes to the single-minded determination of Sr Alemann to wring inflation out of the system and prune public spending. The policies would work quickly, many bankers believed, and as a result margins on loans to Argentina could soon actually fall.

Almost immediately these hopes were dashed by the Argentine occupation of the *Falkland Islands.* Within days Argentina became a "no-go area" for international banks. Its assets in Britain were frozen; it faced the prospect of war in the South Atlantic; and the careful economic policies of Sr Alemann seemed likely to be thrown to the winds in a welter of nationalistic fervour.

From the outside it seems incredible that a whole market can change its mind, not once but twice, in barely a week. Bankers must be a curious lot, outsiders argue, to lend so much money on the basis of flimsy economic and political analysis. With hindsight it should have been easy to predict the invasion of the Falkland Islands and any sensible leader would have drawn in his horns long before April 2.

Yet such criticism ignores the fact that assessing sovereign risk has become increasingly hard in recent years. Even the British Foreign Office *admits to errors of judgment in* the Falklands question and when they look at sovereign risk banks have to make some assessment of a country's prospects not months but years ahead. Who, for example, could have accurately predicted the rise of the Solidarity trade union in Poland as far back as the mid-1970s, when Euromarket lending to that country was running apace?

The safe answer to this problem is extreme caution in lending but banking involves taking some risks and the banker who takes no risk at all is unlikely to do much business.

Moreover, since oil prices first exploded in 1973/74 banks have been compelled willingly or unwillingly to take on more and more sovereign risk. Time and time again they have been told by international functionaries and government officials that the commercial banking system had to bear the main brunt of recycling surplus oil exporters' funds to countries whose oil import bill had ripped a gaping hole in their balance of payments.

*So far did this process go that* by last September commercial bank lending to the countries of Latin America had risen to $168bn. Lending to the developing countries of Asia totalled $102bn, to Africa $36bn and to Eastern Europe $59bn—according to figures compiled by the Bank for International Settlements in Basle.

As these figures have grown, more and more bankers have become worried that the risks involved were too great. Balance of payments financing (which essentially means the financing of consumption of, say, oil or the financing of debt service payments) has become a highly unfashionable activity. Project financing (which essentially *means the* financing of capital investment) has been growing in allure.

In the last couple of years banks have received several severe jolts from countries which have proved unable to service their debts. By far the most conspicuous case has been Poland, but others include Romania, Costa Rica, Bolivia, Sudan, Liberia, Nicaragua and Togo. As interest rates have risen other countries have faced needs of daunting proportions—Mexico, whose foreign debt of some $65bn is the largest in the *world, needs to borrow about* $20bn this year.

It is thus not surprising that the climate for sovereign lending, and particularly balance of payments financing, has become more cautious than before. One way banks are protecting themselves from undue risks is by concentrating their new business on safe countries or on countries such as Malaysia and *India which are patently under*borrowed.

This has led to a noticeable differential in the conditions on which individual countries can raise loans. Australia, arguably the most popular borrower in *the market today, might even* be able to raise a Eurocredit with a margin of just ¼ per cent above London Eurodollar rates. Brazil, at the other end of the spectrum, pays 2¼ per cent.

Higher margins for the *greater risks are important for* banks because they increase the profitability of such lending and some of the increased profits can be used to set aside provisions against potential losses on loans that turn sour.

A number of central bankers, notably Mr Henry Wallich, a governor of the U.S. Federal Reserve Board, have argued recently that margins in the Eurocredit market were not high enough to allow for adequate provisions. Since the Polish debt crisis central banks have been paying much more attention to the degree to which banks have protected themselves against unexpected shocks in the loan market.

But what no banker likes to *admit* is that a loan has turned irredeemably sour. This inevitably means writing it off altogether and realising an actual loss on the business. Therefore, a borrower who can no longer repay his debts is usually invited to reschedule his debts instead of being declared in default.

Rescheduling means deferring repayment of loans until such time as the borrower is in a position to meet his obligations. Normally loans extended by governments such as export credits are rescheduled as well and the borrower country has to submit to an economic recovery plan endorsed by the International Monetary Fund which will enhance its chances of being able to repay in the future.

On paper this process looks extremely simple. In practice it involves time-consuming and costly negotiation, often in a climate of extreme nervousness. The more such reschedulings proliferate, the more cautious the market becomes as a whole.

In the case of Eastern Europe banks have withdrawn credit facilities to a whole string of countries because of the Polish debt crisis. Yet many admit that this way of protecting themselves against sovereign risk could be counter-productive. By turning off the credit tap they could be pushing previously sound countries towards default on their existing debt.

This is just one more example of the dilemma facing international bankers as they contemplate the problem of sovereign lending.

Generally accepted wisdom in international banking states that bankers should know their customers intimately and make sure that the rewards are commensurate with the risks. Getting the equation right is far from easy, however, especially when, as in the case of several countries with debt problems, political risk becomes as important as economic risk.

# Salvage operations require great co-ordinated efforts

## Corporate lending

DUNCAN CAMPBELL-SMITH

"EXPERIENCE tells us that corporate bankruptcies and insolvencies always increase at the first upturn of the economy," says Sir Kenneth Cork, the De Lorean motorcar company's receiver and veteran of more economic cycles than most.

If economic recovery does not get them, high real interest rates could yet finish off several major companies, in the U.S. as well as Europe. Mr Gordon Pepper, joint senior partner of City stockbrokers W. Greenwell and Co, recently returned from the U.S. warning that a series of major bankruptcies looked likely — which he thought "particularly worrying given the precarious state of international credit markets."

A critical stage has been reached in the present recession, with the list of corporate fatalities and walking wounded growing alarmingly in recent months. Commercial bankers have been involved in enough rescue bid rescheduling — successful and otherwise — to prompt some urgent questioning of international corporate lending practices.

Urgent questioning is, of course, a characteristic of every recession. The collapse of Rolls-Royce in 1971, for example, led the banks to look again at the prevalence of the "big names" approach to lending by too many credit departments. Moreover, every recession excites worries about the ability of the smaller banks to risk putting more good money after bad in an attempt to shore up crippled balance sheets.

This time round, though, the unbridled competitiveness of the international credit market in recent years has ensured a host of special problems. Too much has been lent too easily from too many different sources, say the bankers' critics.

The resulting mix of foreign and domestic banks as creditors to a troubled company, for example, has presented problems in more than one case. For Massey Ferguson it lent endless complications to the marathon refinancing of the company eventually signed last July.

Massey successfully negotiated a C$715m (£320.6m) package with over 200 different banks to finance 80 manufacturing operations in about 30 countries. It was, said Mr Victor Ciardello, one of Massey's treasurers, "the first genuine multinational corporate refinancing."

Other difficulties raised by international consortia go beyond the straightforward problem of physical co-ordination. There is the varying susceptibility to informal pressure, where this is brought to bear in the hope of facilitating a corporate rescue. Those consortium members not directly under the authority of a central bank are always liable to threaten the neatest schemes arranged under the auspices of the bank.

The pressure may be commercial as well as political. In the case of International Harvester, the other threatened farm machinery manufacturer, there is no doubt that a $4.2bn reorganisation of its debt was only agreed just before Christmas after tense negotiations—nicely under-stated as "a lot of phone calls" by one participant — had succeeded in bringing into line the last few of the company's 200 domestic bankers.

Even then many foreign banks were left outside the reorganisation. Grindlays Bank SA, the French subsidiary of Grindlays, has now launched a suit against International Harvester for $1.2bn. This has prompted fears that U.S. and other cross-default clauses may be triggered, scuppering the whole rescue.

Again, the competitive environment of international banking has spawned a mix of secured and unsecured bank creditors in many instances which can entail further obstacles to co-operation. Secured creditors can afford a rather more relaxed view of moratorium arrangements, whether formally instituted under Chapter XI in the U.S. or arranged less formally as in the UK. Those without security are far more likely to bolt for the exit door.

It remains to be seen how this will affect the passage of AM International, the Chicago-based office equipment company, through Chapter XI. It filed its petition for the moratorium on debt and interest repayments on April 14, owing $465m to about 8,000 creditors. Most of them are unsecured—including its banks, which are committed for $254m of that total.

AM International's major foreign subsidiaries went into default before their parent with $30m of debt, only $4.7m of it guaranteed from Chicago.

This suggests perhaps another potential problem facing international bankers who have lent to the overseas subsidiaries of multinational groups without too much regard for the chapter and verse of the parent's debt guarantee obligations.

Whether those obligations should in fact be automatic was one of the proposals considered by the professional accountancy bodies in the UK during the preparation of the recently completed Cork Report on Insolvency Law.

The proposal that British law should decree automatic inter-group debt guarantees except where formal disclaimers had been filed was firmly opposed by the 100 Group representing the financial directors of 100 leading British companies. "If a disclaimer had to be made, you could well find yourself undermining your commercial position in a foreign market quite unnecessarily," says Mr Michael Julian, finance director of BICC.

Possible amendments to corporate insolvency law are thick on the ground in the UK and many other EEC countries, though the 1979 reform of the U.S. Bankruptcy Code has largely defused a similar debate on the other side of the Atlantic.

Unsettled public attitudes to issues raised by major corporate collapses can be another grave problem for the banks — as those involved in the recent failure of Stone-Platt Industries know only too well.

Stone - Platt, a textile machinery and engineering group, collapsed with debts of over £40m. Receivership followed a protracted period of rescue talks between bankers, accountants, shareholders and the company—supervised in large part towards the end by the Bank of England.

The collapse when it came nonetheless brought extensive public criticism of the part played by the banks in precipitating the final curtain. Regardless of the merits or otherwise of that criticism, the bankers in the nature of things cannot proclaim their own case with the evidence to support it. They must take the brickbats and concentrate on the financial realities — though it would not be surprising if the British clearers were at present rather more than usually reluctant to appoint receivers elsewhere.

The experience of Chrysler's bankers does not suggest that government intervention is invariably a desirable alternative to more drastic measures. The U.S. Government has guaranteed $1.2bn of new debt for Chrysler and this has allowed huge new funding exercises like last year's issue of $400m in 10-year notes on Wall Street. The commercial bankers have meanwhile seen their loans paid off — at about 30 cents to the dollar.

Finally there are the lessons to be drawn from this recession about individual geographical and industrial sectors—some of them now resounding with the noise of bolts being drawn across stable doors.

Not the least of these lessons, after the demise of Laker Airways with debts of $421m (£226.4m) will concern the world's airline industry. Laker's collapse looks certain to prompt extensive reassessment of the industry's general creditworthiness.

This should guarantee some uncomfortable decisions for the banks as massive expenditure plans loom over the horizon with the arrival of a new fuel-efficient generation of civil aircraft for the 1980s and beyond. The number of healthy airlines in the world, said one U.S. insurance company executive recently, could be counted "on one hand with a few fingers missing."

Of which industry will much the same no doubt be said after the next recession?

هكذا من الأصل

# Top two lending agencies manoeuvre closer together

THE sprawling office buildings of the International Monetary Fund and the World Bank face each other across 19th Street in Washington DC and together dominate a whole corner of the town. Their staffs enjoy common salary scales and they join together in Transcendental Meditation Groups and Duckpin Bowling Leagues. But it has only been in the past two years that a much more serious form of co-operation and, some say, bureaucratic rivalry has developed between these two colossi of the international financial system.

In the three decades following their establishment at the Bretton Woods conference in 1944, the Bank and the Fund went their separate ways, as their respective areas of responsibility moved geographically, and even philosophically, apart. From the early 1960s the Bank's focus shifted from the reconstruction of post-war Europe to the development of Third World countries. The Fund's main concern remained the administration of an orderly system of international exchange and payments, a system which continued to be dominated by the problems of the industrialised nations.

Since the mid-1970s, however, and especially since the second oil crisis in 1979, this neat division of labour has begun to show signs of strain.

The Fund has been forced to accept that the balance of payments problems of some of its members, particularly among the extremely energy-dependent newly industrialised countries, were too deep-rooted to be resolved with the short, sharp measures to restrain demand which it usually recommended to borrowers from its traditional "credit tranche" standby facilities. In 1974 it introduced a new "extended facility" to support programmes for improving payments balances over periods of two or three years, with repayments stretching as much as 10 years into the future. In 1979 a further "supplementary financing facility" was started to help countries hit again by the second oil crisis in five years.

With these developments the Fund was drawn more closely not just into the broad financial and demand-management policies of its member nations but also into the detailed industrial planning and development strategies required to effect the structural transformations of their whole economies necessitated by the energy crisis.

The Bank was, meanwhile, seeing the same imbalances in international trade from the other direction. Its economists, working closely with developing countries on specific projects and development plans, could see the need for wholesale structural change in these economies resulting from new systems of relative prices, new financing constraints and new assumptions about the growth of world trade.

After a period of soul-searching the Bank decided in September 1979 to launch its own programme of Structural Adjustment Loans (SALs) to supplement the loans for specific projects which it had traditionally made. Since then it has committed over $1.6bn in 13 programmes to 12 countries (Turkey has had two SALs totalling $575m).

Thus the funds committed through SALs by the Bank are comparable with the sums made available by the Fund to developing countries through its extended and supplementary facilities. Questions have naturally arisen about whether there is a need for the apparent duplication of effort — and not just from the inveterate Right-wing opponents of international bureaucratic proliferation of any kind.

In the Bank there were people who argued that its limited resources should not be channelled away from traditional project lending. Indeed the SAL programme was only approved by the Bank's board with the proviso that non-project lending would be kept below 10 per cent of the Bank's total commitments each year.

At the Fund, in addition to the inevitable concern about the apparent incursion on its traditional territory, there was initially some suspicion that the Bank, with its different philosophical emphasis, could conflict with the Fund's attitude to conditionality of loans. On the other hand, among the Bank's Third World clients there was the opposite fear, that the SAL programme could stiffen the Bank's general insistence on far-reaching economic and political reforms as a condition for lending, thus bringing its attitudes closer to those of the Fund.

**World Bank/ IMF**

ANATOLE KALETSKY

The initial friction between the Bank and the Fund does not seem to have lasted. Last year the president of the Bank and the Fund's managing director exchanged a Memorandum of Understanding on how they would co-ordinate their structural adjustment lending.

The idea is that the two institutions' policies are inherently complementary and that each of the Bank's SALs will normally be negotiated in conjunction with a standby or extended fund arrangement from the IMF. The Fund deals with the country's immediate balance of payments crisis and agrees a programme to be carried out over a 1 to 3-year period.

This would normally involve constrictions on credit restraint to control inflation, budget and demand limitation to improve the balance of payments and an adjustment in the exchange rate, if necessary. The Bank, meanwhile, talks with the government in a somewhat more leisurely way about ways of addressing the economy's underlying problems over a longer period. It looks at the industrial structure, at the pricing system, at the institutions managing the economy and even at the training and possible relocation of the people running these institutions.

Public sector investment is a particular area in which the Fund's and the Bank's approaches are quite different. The Fund is normally concerned mainly with limiting aggregate public spending, whereas the Bank concentrates on ensuring that public spending is allocated to the programmes which are most productive economically.

The staffs of the two institutions now generally recognise the division of labour and the number of missions with staff from both the Fund and the Bank has doubled over the past three years. The Bank's board always receives reports on the Fund's position before they consider making SALs and the Fund's staff also systematically report to their executive directors on what the Bank is doing.

There are naturally sources of friction remaining. The Bank sometimes disagrees with Fund requirements for public sector credit restraint on the grounds that they may obstruct important development objectives. Since the Bank only provides foreign exchange to its borrowers, its projects can sometimes be prejudiced if domestic credit is unavailable to match foreign lending.

The Bank's economists, who spend long periods working closely with the governments of their client countries, obviously tend to develop a different perspective from those at the Fund, who are usually sent in only for short intensive missions which precede the agreement on a loan. Partly for the same reason, the images of the two institutions in the developing countries are still very different, with the Bank normally viewed rather more sympathetically than the Fund.

Over time this two-pronged approach may be helpful in achieving the desired reforms. Mr Ernest Stern, the Bank's senior vice-president for operations, summed it up like this:

"The differences in procedures reflect differences in the nature and scope of each institution's operations. The Fund's *involvement is restricted to a* single type of operation — balance of payments support — with relatively infrequent and limited staff visits to a country, while the Bank has many missions relating to a wide range of operations. Fund support is generally — though not always — seen as a rescue operation in response to a crisis. In these circumstances failure to a Fund arrangement is likely to have grave consequences for a country's creditworthiness.

"The Bank's individual SAL operations have a much lower profile and are negotiated at a less intense pace. The consequences of failure to reach agreements are therefore much less serious. In these circumstances negotiations tend to be less confrontational and it may be possible to achieve a more fundamental government commitment to reform."

# Formula to coax more loans from private sector

THE EVER-WIDENING wealth gap between rich nations and the poor countries of the developing world, coupled with balance of payments pressures caused by high oil prices and soaring interest rates, has been throwing increasing strain on the resources of international development banks over the past few years.

This year, for example, the World Bank reckons it needs to borrow some $8bn in world capital markets to satisfy its lending programme. Next year the amount will rise to $9bn, and in 1984 it will need no less than $10bn.

Yet as its borrowing programme has grown, more and more participants in the bond market have begun to question the Bank's ability to raise ever-increasing amounts of fixed interest finance. Put crudely, the time seems to be coming when alternative means will have to be found of channelling development finance to the neediest countries of the Third World.

One answer to this problem which is nowadays on everybody's lips is the magic word co-financing. This means spreading the burden of financing a development project among several lenders, not just the development banks which have traditionally put up most of the funds.

Usually the development bank will combine with private banks in the project financing, although other lenders may also include export credit agencies and industrialised country governments acting on a bi-lateral basis.

The co-financing idea is seen in many quarters as a neat way of drawing commercial banks

**Cofinancing**

PETER MONTAGNON

into lending that they might not otherwise contemplate. They enter a co-financing arrangement under the umbrella of the development bank which has already evaluated the project in question. More important, they know that no development bank will agree to a re-scheduling of its loans. Thus many banks feel that the risk incurred in lending to less well-off countries is reduced through such an operation.

Moreover, the co-financing concept enjoys the active support of the U.S. government. Mr Beryl Sprinkel, Under Secretary for Monetary Affairs at the U.S. Treasury, told the recent annual meeting of the Inter-American Development Bank that the bank should step up its activities in the co-financing arena.

"All of the multilateral development banks must realise," he said, "that public sources of development resources will remain strictly limited over the coming years. If co-financing is to come close to realising its full potential, it must be shown to be in the best interests of the three participating parties—the borrower, the private lender and the bank.

"The terms and flexibility of co-financing instruments will have to be made more attractive to private lenders. The borrowers will need to realise that limited bank funds can be blended with additional resources through private co-financing, and that such arrangements are part of the evolutionary process of development assistance."

Yet Mr Sprinkel's very words betray the fact that despite its apparent attractions co-financing has been slow to take off as a means of channelling development funds to the Third World.

At the World Bank, officials say that they are still involved in an education process with commercial banks, trying to convince them of the advantages and opportunities that can arise through co-financing deals.

The Bank's management itself is also still studying internally the best means of stepping up co-financing deals and some officials admit that it may take years before the full fruits of co-financing are realised.

This is not to say that co-financing is an entirely new concept. The World Bank last year was involved in co-financing projects for a total of $4.04bn, below the $6.5bn posted for 1980 but still well up on the 1978 total of $2.43bn.

But clearly co-financing has not yet fulfilled the expectations of some of its more ardent supporters. The experience of the Inter-American Development Bank is instructive in this respect.

Its co-financing activities have been on an altogether smaller scale than those of the World Bank. In 1981 it was involved in co-financing projects for a total value of $666m, way below the peak of $1.48bn registered in 1978.

One of the reasons for this relatively disappointing performance lies in the fact that it is not always easy to identify projects which are suitable for co-financing.

Banks, for example, prefer to lend to a project that has an identifiable cash flow, though they may be persuaded to become involved if the borrower has proven access to foreign exchange that can be used to service the loan.

Some borrowers mistrust co-financing, partly because it involves raising funds at floating rates of interest. Where possible they prefer to use fixed rate development bank finance because this is not only cheaper but also allows the total cost of financing a project to be factored in at an early stage.

Some of the richer developing countries, particularly Mexico, dislike using co-financing because they say they already have easy access to commercial bank borrowings. Borrowing from commercial banks to finance projects that would normally be covered by development banks is far from straightforward, they say, as it involves a much more complicated documentation and disbursement process than is the case with a straight commercial bank loan.

For the banks, too, the question of risk is far from clear, especially when they find themselves lending to poorer countries under a co-financing scheme. It is interesting to note that the poorer countries of Africa have never figured very large in the World Bank's co-financing programme.

Under the World Bank's system the commercial banks which participate in a cofinancing scheme provide a separate loan direct to the Third World borrower. The loan is linked to the World Bank's own lending to a particular project through an optional "cross-default clause," whereby either side has the right to declare the loan in default if the other side does the same.

What is not clear is how far the banks are actually protected under the scheme. The World Bank has immense leverage over its borrowers and none of its loans, whether conventional or co-financed, has ever been declared in default. Many commercial banks involved in co-financing argue that pressure from the Bank for continued service of its loans could also help them in dealing with a country in foreign exchange difficulties.

The Inter-American Bank system is altogether more water-tight. Under its co-financing scheme the private lenders make a loan direct to the Bank itself, which then passes the proceeds on to the project.

Inter-American Bank officials point with some pride to the fact that co-financing loans to Bolivia and Costa Rica are still being serviced despite the debt reschedulings that have overtaken both those countries.

But even guarantees such as this have not been enough to stimulate great interest in co-financing—partly, observers suspect, because the lending banks know that in the event of sovereign risk turning sour they do face at least some *management* problems in ensuring that their loans continue to be serviced.

What then is the real future for co-financing? In the words of one commercial banker who has studied the question closely, "co-financing will be a help in the future but it is never going to become the dominant source of development finance."

# Supervisory authorities take a fresh look

"ONE OF the most important tasks in the 1980s will be to ensure that the worldwide process of co-operation and co-ordination of banking supervisors, as it manifests itself in Brussels, Basle and other parts of the world where groupings of supervisors have been formed recently, progresses in a co-ordinated and constructive fashion."

These words by Peter Cooke, the Bank of England man who heads the Basle Committee of Supervisors of the Group of Ten (G-10) major industrialised countries and Switzerland, highlights one of the key problems facing the banking supervision community as the world's banking system heads into deeper and deeper trouble.

The financial problems of countries like Poland, and now Argentina, coming at a time when profits are being squeezed and capital ratios are under severe pressure, is forcing bank supervisors around the world to take a view on issues such as the proper treatment of rescheduled loans in bank balance sheets and the correct level of provisioning for bad and doubtful debts.

In some cases the severity of the potential problems is encouraging individual supervisory authorities to adopt a national approach which could be at variance with the wider responsibilities of the international banking community at large. What steps should a country's regulators take for example, when a bank fails?

As the closure of Bank Herstatt in the early 1970s demonstrated, the actions of the bank regulators, no matter how well intentioned, can damage international confidence and there is a good case for producing common ground rules on how to wind up a bank which the banking supervisors around the world will observe.

The biggest difficulty facing the regulators is that there is no single supervisory authority for the international banking system and in fact large parts of it are left largely unregulated. For the regulators this can prove a nightmare. If London tightens up its regulations, then banks switch business elsewhere.

At the same time individual regulatory agencies have differing views about the same problems—a divergence which builds further tensions into the international banking system.

The EEC is doing a considerable amount of work related to banking supervision which overlaps with what is under way in Basle. It has, for example, proposed several "observation" ratios for banks relating "own funds" to risk assets, to other liabilities, to fixed assets and to total large exposures. The fear is that these ratios, at present used purely for observation purposes, will become "normative" and form, part of the EEC's approach to the harmonisation of banking supervision, whereon the Basle group of supervisors favour a less rigid approach.

Speaking at a seminar in London on the EEC and the banks earlier this year, Peter Cooke warned that EEC moves to harmonise bank regulation "should not impair the broader based efforts of supervisors worldwide to sustain the soundness of the international banking market."

He stressed that the efforts of the Basle group of supervisors were devoted to "developing general principles, guidelines and recommendations, leaving it up to individual members to implement them" either by statutory or administrative means. He feels it would be undesirable if EEC banking legislation were to impose a degree of rigidity and precision of approach which might prevent participating in wider groups.

The danger is that as the problems for international banks mount, the efforts of the regulatory agencies will be dissipated by behind the scenes squabbles on what they should do.

It is difficult to measure the success so far of efforts to hammer out common principles for international banking supervision. The Basle Committee of Supervisors was set up in 1975 and identified two main tasks 1) to adapt the national supervisory system within each country in order to cope with the wider dimensions of their major banks business; 2) to promote close co-operation between national authorities in monitoring the activities of the overseas branches, subsidiaries and affiliates of their own banks and the offshoots of foreign banks in their own territories.

Its main achievement to date has been the publication of the so-called "Basle Concordat" in April 1980 which tries to define who is responsible for what in the international banking system. It falls far short of being an agreement for lender

## Regulation

WILLIAM HALL

of last resort facilities to the international banking system but it does lay down a basic principle that foreign branches are the responsibility of the parent and subsidiaries the primary responsibility of the host authority.

Peter Cooke stressed in an article in the June 1981 bulletin of the Bank of England that "the Concordat's guidelines are not fully implemented in practice, and certainly not in law and there remain areas where the division of responsibility is not entirely clear cut and where banking secrecy provisions are to a degree an impediment to its effectiveness."

Nevertheless Mr Cooke said that the Concordat has "become established as a most important cornerstone of international supervisory co-operation."

Aside from this initiative, bank supervisors from more than 80 countries held the first International Conference of Banking Supervisors in July 1979, in London, and a second one was held in Washington in September 1981. Further meetings are planned. In addition, meetings have been held with the supervisors of offshore centres to discuss matters such as the exchange of information, consolidation and supervisory standards and procedures.

Despite the progress in Basle some people believe the regulators have not progressed fast enough in implementing common principles. The Concordat is aimed at sustaining the health and safety of the existing structure through effective supervision. As Peter Cooke admits, "It does not set out to rule on the way in which the pieces of that structure should be picked up if it is broken."

Another area where the supervisors still need to make considerable progress is implementing the principle that banks' international business should be monitored on a consolidated basis.

Mr Peter Cooke (left), Bank of England man who heads the Basle Committee of the Group of Ten and Switzerland, and Mr Henry Wallich of the U.S. Federal Reserve. Both advocate greater co-ordination of the efforts of regulatory authorities worldwide.

Peter Cooke notes that since the Governors of the Group of Ten central banks "strongly endorsed the consolidation principle and recommended its early implementation," good progress has been made in several countries. However, he stresses that the top priority of the Basle committee in the 1980s will be "to encourage and monitor progress towards this end."

It is also an area where there is a certain amount of friction between the EEC and the Basle Committee. The EEC has fairly strong ideas about the matter and has published a draft directive on bank accounts.

But Peter Cooke stresses that "consolidation *par excellence* is an issue which is worldwide in its application and it would be undesirable to introduce rigidities which might compromise the effectiveness of wider international undertakings."

The EEC has also shown interest in establishing a credit information exchange within the Community. Once again Peter Cooke believes that the regulators should take a more global view—"an organisation of this kind only makes sense in a wider international context and in relation to country risk data." Basle is already working on such a project.

A key area where bank regulators have been slow to reach agreement is in the treatment of rescheduled loans. As the financial problems of the Comecon countries and the less developed countries mount, this is an area which is now being given urgent attention.

Henry Wallich, a governor of the U.S. Federal Reserve system, says that it is "advisable" that regulators begin to formulate ideas about the balance sheet and income treatment of rescheduled loans. In a speech last summer he quoted a study by the Bank for International Settlements that had found that in no major country are delays in payment of interest on sovereign loans automatically classified as doubtful debts. In most countries banks have considerable leeway with regard to the accounting treatment of loans to sovereign borrowers in arrears.

He cited the case of two banks, one with strong earnings and the other with losses. The strong bank may be willing to reduce taxable earnings by an allocation to reserves. Hence that bank might take a firmer negotiating stance towards the borrower than the bank with losses. The latter may wish to avoid showing any write-off of loans.

Better co-ordination in these areas by the regulatory authorities would "contribute to a wholesome discipline on banks to avoid getting into re-scheduling situations and on borrowers to maintain policies that would make re-scheduling unnecessary."

Mr Wallich admits the task is not an easy one. "We will first have to address a number of questions such as: should reserves apply only to country loans or should they be maintained on re-scheduled commercial loans as well? How do regulators discern the difference between a refinancing and a re-scheduling? Should all re-scheduled loans be accorded the same treatment, or should supervisors have discretion? If reserves are to be set aside, how big should they be in relation to the loan and how long should they be maintained?

"It is up to us to make sure that banks have, or are on their way to achieving, adequate means to protect themselves against sovereign risks.

"We should ask questions such as: are they pricing this risk properly, building earnings that will offset any eventual losses? Are they adjusting their capital to serve as a buffer against potential international losses?"

The issues facing the world's banking regulators are probably more complex now than ever before. The banks are under increasing pressure to maximise their profits in a hostile world and this in itself is likely to lead to growing tension between the banking community and the supervisory authorities.

Mr Gordon Richardson, Governor of the Bank of England, summed up the dilemma facing banks in a speech he gave to the annual assembly of the Bundesverband deutscher Banken in Bonn last December.

"Having been a commercial banker myself before I became *inter alia* a supervisor, I am well aware of the narrowness of the path that bankers have to tread: if you stray to one side, you may be exposed to public criticism for unimaginative conservatism, and if to the other, to private criticism by supervisory authorities for imprudent banking practice. In the last analysis, however, it must be remembered that without a sound banking system there is no way that domestic and international customers can be helped to adapt to present conditions."



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## TOP BANKERS: Profiles on this page reflect views of an international quartet—Britain's Timothy Bevan, Japan's Yusuka Kashiwagi, France's Jean Deflassieux and West Germany's Walter Seipp

TIMOTHY BEVAN—BARCLAYS BANK

# Calm on risk exposure

"I THINK we need to be careful not to become over-pessimistic about the periodic need for countries to reschedule their debts," says Mr Timothy Bevan, who has just completed his first year as chairman of Barclays Bank.

"You can't run for cover at the first drop of rain — that would clearly bring the whole system down." He stresses that international confidence is a fragile affair and bankers should not make sweeping generalisations from the experience of one country.

Just because Poland has turned sour does not mean that a bank should write off its entire Comecon debt. Banks needed to look at countries on a case by case basis.

"I do not think there is an international banking crisis but it is always possible to talk oneself into it. I hope people are more sensible now than they were in the early-1970s."

On the other hand, says Mr Bevan, "the days are gone when one can go on blowing up one's balance sheet for fine rate business on the ground that it is riskfree. Quite clearly that situation no longer applies. What one has got to do is conduct one's business in a relatively normal way and keep as large a number of eggs as possible in the basket."

From some bankers such sentiments might be regarded with a certain amount of scepticism; but coming from Mr Bevan it is clearly a philosophy he, and his bank, adhere to religiously. Mr Frank Dolling, a vice-chairman of Barclays and close confidant of Mr Bevan, told U.S. financial analysts last year that the group's total sovereign risk exposure—"and I mean total"—is less than that of Citibank's exposure to Brazil.

With assets of close to the equivalent of $90bn, and 130,000 staff operating in more than 80 countries, Barclays ranks as one of the world's premier banks. Unlike his contemporaries at rival institutions, Mr Bevan is the only one that can boast that his great grandfather was one of the bank's founders and first chairman.

Barclays' major thrust over the last few years has been in North America, where it now has assets of more than $10bn, over 8,000 on the payroll and operations in 35 states. The group has raised considerable debt in the U.S. which insulates it from exchange rate movements and it is also keeping a close eye on the regulatory upheavals.

Mr Bevan says: "We think we have got ourselves in a sufficiently mobile position that we are unlikely to be surprised by anything that happens and can reasonably exploit any opportunity that presents itself."

Mr Brian Pearse, one of the bank's key general managers, has recently been taken out of the UK (much to the relief of some of his rivals) and assigned to head up Barclays' North American operation, underlining the importance the group attaches to the success of this venture.

Over time Mr Bevan thinks it likely that the group will sell a stake in its U.S. operation to local investors, a policy it sees itself pursuing in most major markets. "It is entirely wrong if you are in any country where the local people do not have an interest in the operation."

Changes are also under way at Barclays Bank and Barclays Bank International (BBI)—the two main banking operations which have traditionally operated independently. It was easy to keep the two operations separate when the old Barclays DCO (the forerunner of BBI) was a "colonial bank" but now that it is a major international bank there are obvious areas of overlap.

"When you get large multinational corporations who want a credit line which they can draw in D-marks, sterling and dollars, you have to face the question of who authorises it, the domestic or the international board?" says Mr Bevan.

"There must be a trend towards the centralisation of the machine," says Mr Bevan. To this end a small internal committee has been set up under Frank Dolling which looks at questions on a group wide basis and decides which division is going to pursue an initiative and the time scale. In areas such as tax and capital, a single corporation makes more sense.

Combining Barclays Bank and

BBI into a single entity would be far more efficient and reduce overlap. The difficulty is perfectly simple to explain, says Mr Bevan: "The larger the unit the harder it is to decentralise and we are firm believers in decentralisation which gives people a feeling of running their own show."

Another area to which Mr Bevan and his colleagues are giving considerable thought is new technology. Barclays has earmarked $440m for capital spending this year, much of it on sophisticated equipment to distribute its corporate and retail banking services.

"If any bank falls far behind in technology it will be in dead trouble," says Mr Bevan. "Equally it is dangerous, one has found, to be absolutely in the van of progress because then you get the idea when it has not been tried out." A bank has to have technology which is totally reliable.

WILLIAM HALL

YUSUKA KASHIWAGI—BANK OF TOKYO

# 'Tied to the world'

BANK OF TOKYO's president Mr Yusuka Kashiwagi would appear to be sounding a common chord among bankers when he declares "this will be a very difficult year."

"We are becoming more and more tied in the world," he says, mindful of the trouble spots which give increasing concern to bankers around the world. Closer to home Japan faces the problem of an over-devalued yen exchange rate, an area in which the Bank of Tokyo specialises.

Judging by Japan's economic "fundamentals" Kashiwagi believes that the Y230 or Y240 to the dollar level is "far too weak." He blames a "too high" dollar (itself caused by too large a gap in real U.S. interest rates — ie, interest rates versus inflation). He also points, however, to a shrinkage in Japan's own current account surpluses compared with earlier expectations. For the fiscal year which began on April 1 Mr Kashiwagi expects the surplus to be about half the initial $12bn forecast made by the government.

Kashiwagi shares the view of many of his former colleagues in the Finance Ministry (where he served as a Vice-Minister for International Affairs before joining the bank in 1973) that Japan can do painfully little on its own to bolster the yen unless the authorities take the extreme step of declaring the yen's decline an "emergency." He seems in fact more alarmed by the "gap" in perceptions between Japan and the West (especially Europe) of such things as the yen's weakness than by any basic problems with Japan's economic management.

"We should be commended for the economy," he quips, which though slowing, is still free of inflation and unemployment problems. Despite outside pressures for Japan to change its ways of doing things Kashiwagi thinks it fair to ask that as long as Japan manages itself well "why change?"

Changes are coming anyway, he believes, in a "process of evolution." This is partly because Japan is indeed becoming more involved with the rest of the world, and partly the special circumstances which make Japan a generator of capital through high savings much of which land with the banks.

Kashiwagi thinks, for example, that Japan's own off-shore capital market is coming, though at least a year away.

RICHARD HANSON

JEAN DEFLASSIEUX—CREDIT LYONNAIS

# First of a new crop

Arriving for his first Press conference, the new chairman of Credit Lyonnais insisted on going round to shake everybody by the hand, chatted up an Italian correspondent in Italian, seated himself at the far end of a table clearly made for chairmen to sit at the middle of, and apologised with a grin for not offering a sumptuous lunch like last year: "This year, it's the breadline."

M Jean Deflassieux, a 56-year-old with the physical appearance of a combat-fit general, evidently does not care for fitting any top-banker stereotype. But then he is so much at home in the bank, he scarcely needs to.

He was the first in this year's new crop of chairmen for the French state sector. In general the Government based its choices on professional rather than political credentials; in this case the candidate had both.

The job at Credit Lyonnais, one of the three big banks which were already under state ownership, came up for renewal in February, a few weeks before the new wave of nationalisations took effect.

The previous incumbent, M Claude Pierre-Brossolette,

had been President Giscard's chief aide and was "parachuted" into the bank when its chairman was murdered in the street in 1976. M Deflassieux, by contrast, has been 34 years at Credit Lyonnais.

He joined straight after completing his studies—which included a spell at the London School of Economics—and rose to became head of its international operations. He built up its foreign branches and repaired its weaknesses in the U.S. and Asia. Last year his division gave the bank more than half its profits.

His banking career has run parallel to a Socialist Party career. From the 1950s he helped to formulate the bank takeovers which have been part of the Socialist programme ever since. His cherished scheme of a national investment bank modelled on Italy's Iri has failed to materialise but he has been closely involved in policy making, publishing under a pseudonym.

An animated talker with a mischievous sense of humour, he may have brought a new style to the banks management—but no revolution. His reputation is for hard-headedness and plain speaking. He defends his predecessor's policy of trimming Credit Lyonnais' 45,000-strong workforce: otherwise, he says, it would not have made its profits. The nationalisation law does not reduce the need to stay competitive. "Abroad there is nothing but competition," he says. And as for Credit Lyonnais' relations with the other state-owned banks: "We fight like dogs."

DAVID WHITE





WALTER SEIPP—COMMERZBANK

# Rescue helmsman

WHEN Dr Walter Seipp, 56, quit Westdeutsche Landesbank early in 1981 to take over control of the management of Commerzbank there were many German bankers who questioned whether the aggressive and at times abrasive international banker was indeed the right man to nurse the Federal Republic's third largest bank back to health.

It was already apparent then that the tasks awaiting a new chief executive of Commerzbank were of a kind which would require not only considerable patience in dealing with the shell-shocked top management of the bank but also close attention to grinding day-to-day detail, for it was as much inadequate management systems as ill-judged decisions which drove the bank into operating losses in 1980 and forced it to abandon payment of a dividend.

It was clear too that whereas Seipp had built up his reputation as a man capable of riding the expansionary international phase which the German banking industry enjoyed in the 1970s, for Commerzbank in particular the first half of the 1980s was of necessity going to have to be a period of consolidation.

Seipp made it clear from the start that whatever else might be decided at Commerzbank there was going to be no doubt who would be the boss. He was appointed chairman of the managing board, making it clear that he intended to be more than the primus inter pares implied by the title of "speaker" held by many of the big commercial banks' chief executives.

In his first year of office, however, Dr Seipp has gone out of his way to try and prove the sceptics wrong. There has been no wholesale restructuring of the top management of the bank. Indeed it was not until March of this year that Herr Englebert Dicken, the Commerzbank board member who was most directly criticised for the mistaken funding policies of the past, officially resigned. Dr Seipp seems to have accepted that for Commerzbank the possibilities of attracting new top quality senior executives would be limited.

At a nuts and bolts level too the international banker has been hard at work. A new financial information system has been developed to give the bank day-to-day control of both sides of the balance sheet. At the same time, with top management now in a better position to monitor the bank's business, steps have begun to be taken to delegate more authority to local management.

With around DM 20bn of fixed interest long-term loans still not profitable because the cost of funding is higher than the rate of interest being earned on the credits, convalescence promises to take

some time. Dr Seipp has predicted that 1982, like its two predecessors, will see little if any increase in the volume of the bank's business. Instead the restructuring of both sides of the balance sheet aimed at improving the profitability of the bank at its current size remains the priority. He has, however, held out the hope that 1982 will see the resumption of dividend payments, although almost certainly not at the levels of the past.

At least today, however, the bank can comfort itself that the recovery process seems likely to be taking place in a more favourable economic climate than has prevailed for most of the past two years. German interest rates have been heading down for the past six months, easing the burdens of the past and opening up new profit opportunities for the future.

STEWART FLEMING

COUNTRY PROFILES: The rest of the survey reviews the fortunes of the banking communities in the countries of the Common Market, including associate and prospective members, in the Nordic Region, Switzerland and East Europe's Comecon

# Sharp increases in bad debt provisions

## Netherlands

CHARLES BATCHELOR

THE DUTCH BANKS face a challenging decade at a time when pressure on their profit margins will restrict their ability to adjust and respond.

Most of the larger Dutch financial institutions have established venture capital subsidiaries after the relaxation of central bank controls. The funds committed remain small, however, and with many bankers doubtful of the value of this form of financing, it remains to be seen whether they will be a success.

A plan to merge the existing three interbank transfer systems, operated by the Post Office Giro, the commercial banks and the central bank, will also involve a great deal of study. This issue has been one cause of a deterioration in the relations between the bank unions and the employers. Faced with the threat to jobs posed by various forms of automation the unions have, by Dutch standards, recently become more militant.

The competition between the various institutions continues to grow tougher. The Post Office has high hopes of starting the much delayed "Postbank" in 1984, offering a range of services much broader than the existing Post Office Savings Bank and Giro. Meanwhile the Robeco investment group has ruffled banking feathers with the launch of its Roparco savings account which has already attracted considerable funds. By cutting costs to the bone and using its investment expertise Roparco has been offering more attractive interest rates than traditional savings schemes.

While most of the larger Dutch banks achieved respectable increases in pre-tax profits in 1981 the difficulties faced by many companies meant that sizable increases in the banks' provisions for bad debts were necessary. The banks' total provisions are kept a closely-guarded secret although annual additions are announced.

Dr Andre Batenburg, chairman of Algemene Bank Nederland (ABN), revealed last month, however, that there were indications that the banking community as a whole had withdrawn more from provisions in both 1980 and 1981 than they had set aside.

ABN increased its provisions last year by 65 per cent to a record Fl 495m while its largest universal banking rival, Amsterdam-Rotterdam Bank (AMRO) upped its provisions by 66 per cent to Fl 475m. The rates of increase at Rabobank Nederland, the agricultural co-operative, and at Nederlandsche Middenstandsbank (NMB) were 25 and 48 per cent.

ABN's extensive foreign network is proving an increasing useful counterbalance to the depressed domestic credit market. Business carried out by its foreign offices—and excluding foreign business trasacted from the Netherlands—contributed 52 per cent of pre-tax profits in 1981 compared with 46 per cent the year before. As a share of the balance sheet foreign business rose to 35 from 31 per cent.

ABN was alone among the top four Dutch banks to increase profits at the net level. Against ABN's rise of 10.5 per cent, Rabobank experienced a 1 per cent fall, Amro a decline of 5 per cent and NMB a 19 per cent drop. These three banks are all expanding their foreign networks although they still lag a long way behind the ABN.

The problems faced by the four largest institutions are small, however, compared with the position of one of the smaller banks, Slavenburg's, and the specialised mortgage banks. Credit Lyonnais, one of the major French state-owned banks, took a 50 per cent stake in Slavenburg's early last year and subsequently increased its holding to 78 per cent by taking up a new share issue.

Slavenburg's was able to show a nominal Fl 1m net profit last year but only by drawing down Fl 125m from its general reserve and after setting aside Fl 79m in provisions for debts. The Dutch Bank has forecast an improvement in gross revenues this year but some observers wonder whether Credit Lyonnais realised the full extent of Slavenburg's problems when it first became involved.

The mortgage banks have been hard hit by the sharp decline of the housing market though there are now some signs that a recovery is under way. After the Tilburgsche Hypotheekbank's slide into the red in 1980, the largest of the independent mortgage institutions, the Westland-Utrecht Hypotheekbank (WUH) made a considerable loss last year.

Despite the pressure on their profits in recent years the universal joint stock banks have proved the most successful at adapting to changing conditions. They have maintained or increased their share in a number of important markets compared with the co-operative savings banks, the mortgage banks, the Post Office bank and the life insurance companies, Mees and Hope, ABN's merchant banking subsidiary concluded in a recent survey.

The universal banks increased their share of savings accounts to 28 per cent in 1981 from 18 per cent in 1976 while they raised their stake in the mortgage lending market to 25 from 11.5 per cent in the same period.

**DUTCH BANKS' 1981 RESULTS**

| | Balance sheet total Fl bn | % change | Net profit Fl m | % change |
|---|---|---|---|---|
| ABN | 122.6 | +13 | 342 | +10.5 |
| Rabobank | 110.4 | +13 | 525 | − 1 |
| Amro | 109.6 | +16 | 263 | − 5 |
| NMB | 55.5 | +16 | 147 | −19 |

This has prompted the co-operative savings banks to merge into ever larger groupings. The size of the combinations now being formed matches many of the smaller Dutch universal banks. The merger of three savings bank groups in Amsterdam, Rotterdam and Breda in mid-1981 into the Centrumbank produced an institution with a balance sheet of more than Fl 7bn, with 291 branches and some 1,700 staff. The three largest savings banks now account for more than half of the total Fl 20bn balance sheet of the entire Dutch savings bank movement.

A proposal for the establishment of a state-owned Postbank, comprising the Post Office Savings Bank and postal Giro, but armed with broader lending powers, has been under discussion for several years. The idea has taken on new life with the return to power last year of a left-of-centre government.

Efforts have already been made to extend the range of services the Post Office Savings Bank/Giro may offer. It may now insure the package holidays which (like other Dutch banks) it sells, and there is the prospect it may be allowed to provide other insurance services. But the big prize which can only be won when the Postbank is formally established will be the granting of commercial overdraft facilities and the acceptance of deposits from commercial customers.

The Post Office Savings Bank/Giro now hopes that the Postbank will be created in January 1984. The commercial banks have opposed the establishment of a large state-owned rival.

The most ambitious of the bankers' plans is for the creation of a unified payments transfer system among the country's financial institutions, the technical, social and commercial aspects are currently under study

The aim is to speed up transfers in the interests of both the banks and their clients, to cut costs and to prevent the development of even more private transfer systems.

Mr Onno Vogelenzang, chairman of Amro, recently described the existing separate transfer systems as efficient and highly automated but the interface between them is "nearly mediaeval." The daily average 280,000 transfers between the banks and Post Office systems must be processed manually while many billions of guilders annually are held up for two or three days longer

The most far-reaching challenge to traditional attitudes has come with the establishment of venture capital companies by the banks and other institutions. Legislation and tradition have until recently meant that the banks, unlike their West German counterparts, kept an arm's length between themselves and the companies they financed.

Since September 1980 they have been responding cautiously to the central bank's decision to allow them to take up 49 per cent in a non-bank, provided they invest no more than Fl 2.5m for no longer than five years. The banks' investment so far has been modest but the idea, if successful, could prove a useful contribution to the revival of Dutch industry.

# Lambert group in significant move to shed its banking arm

## Belgium

GILES MERRITT

AT SOME point in the coming months an extraordinary event is due to take place in the Belgian banking sector. A full quarter of the equity of one of the country's largest and most powerful banks, Banque Bruxelles Lambert, is to be sold off.

How Groupe Bruxelles Lambert, the industrial and financial holdings group that currently holds 46.6 per cent of its banking arm, proposes to negotiate the sale remains to be seen. It could either be en bloc or in parcels, to foreign interests or to domestic buyers only.

The details are, of course, not without importance—merely unknown and almost certainly still undecided. What is a good deal more significant is the fact that Groupe Bruxelles Lambert should be seeking to divest itself of such a massive slice of its banking side. Indeed it is an action that says more about the present problems and the prospects of Belgium's banks than do many financial analysts in detailed reports.

It would be fairer to say that banking in Belgium has during the past year been going through a period of great turbulence rather than through a very rough patch, for some banks' balance sheets and operating profits are healthier for 1981 than they were for the year before. But there has been something close to a deluge of shake-outs and crises in the sector that have not only pushed the normally retiring banks on to the newspaper front pages but also have tended to point to the underlying structural difficulties besetting banking.

The chief drama has been that involving the Bruxelles Lambert financial empire in a coup that has given a blocking minority to a group of outside interests led by veteran steel magnate M Albert Frere. Rather less visibly, there have been other episodes concerning soured Saudi Arabian deals for Kredietbank, the thrusting Flemish bank that is the country's third largest, and such worrying straws in the wind suggesting instability among the smaller private banks as the emergency bail-out of the Namur-based Banque Copine.

The common denominator for Belgium's banks, large and small, is that Belgium's faltering economy and rapidly deteriorating state finances have not only created extremely difficult conditions for the sector but have also imposed an increasingly intolerable lending burden on them. In the period 1975-80 the banks' funding of the state deficit has required annual increases from their coffers of BFr 65bn a year, the total for a year is currently approaching BFr 800bn.

The Association Belge des Banques has just complained in its 1981 annual report that the State's demands last year hit BFr 750bn, which marked a doubling in three years.

The banks would not complain so loudly of being dragooned into financing public sector debt, or of the high interest rates they say are undermining their traditional fixed rate lendings, were it not for their dwindling profitability. The Association Belge des Banques not long ago pointed out that "a bank which works for a year with assets of BFr 100 comes away with a profit of only 26 centimes, or barely half of what it would have made in 1970." The profit records during recent years of Belgium's Big Three banks bear out that assertion, for while their balance sheets have on the whole shown healthy year-on-year growth, their net earnings have been stagnant when not actually in decline.

The top bank — Societe Generale de Banque, which is the banking arm of the giant Societe Generale de Belgique holdings group — recently revealed that its financial performance in 1981 had marked an improvement on the previous year but that net profits were still lower than in 1979. On a balance sheet that had increased by over 12 per cent to reach BFr 1,124bn, earnings for last year had progressed by only 2.5 per cent over 1980's level of BFr 1,911bn to stand at BFr 1,959bn. Both earnings figures compare poorly with the 1979 profits figure of BFr 1.99bn, even though the volume of business being handled by Societe Generale de Banque has increased considerably during that time.

Soaring costs, in a banking system grown so elaborate that in 15 years the number of branches serving each 100,000 inhabitants in Belgium's 10m population has grown from 24 to 37, is an important factor. Not all the difficulties that Banque Bruxelles Lambert ran into in 1980 were due to overmanning — static deposits by its Belgian customers played an important part in its 1979/80 profits fall to only BFr 512m from BFr 75m the previous year. But stringent cost-cutting and staff reductions did much to help restore matters for the year ended September 30 last, when net earnings climbed back to BFr 1.1bn.

Kredietbank, which in recent years has carried off almost all the prizes for dynamic growth, is also beset with stagnating profits. Its 1981/82 financial year ended March 31 is expected to produce an earnings figure virtually unchanged from the BFr 1.76bn of the previous year, and even though some exceptional items of loss are partly responsible, the figures accord poorly with a balance sheet at mid-year up 16 per cent to BFr 537bn.

That these increasingly low returns on funds employed by all the major Belgian banks are behind Groupe Bruxelles Lambert's proposed sale of part of the equity of BBL now seems in little doubt. Nor is M Frere, Belgium's new financial wizard, who before tackling GBL wrested control of the country's major Cobepa financial holdings group from Paribas France, likely to forget that over-reliance on banking was probably GBL's downfall.

The Belgian banks' ability, despite their problems of profitability, to satisfy the increased needs of the country's public and private sector borrowers is nevertheless impressive. Although it is often argued that the Belgian state's borrowing requirements mop up domestic funds at the expense of industry, the figures suggest that is not entirely so. During the period 1975-80 bank credits to the Belgian private sector rose from BFr 515bn at a rate of increase of an average BFr 104bn yearly to reach BFr 1,035bn. During the five-year period before that, 1970-75, the average yearly rate of increase was about half that, some BFr 52bn.

The major snag, however, is that during that time the proportion of lending supplied from domestic deposits has shrunk from some 90 per cent to just over 80 per cent. The attractions of avoiding Belgium's 20 per cent withholding tax and endemic worries over devaluation of the Belgian franc have encouraged such capital outflows. But for the banks, borrowing these funds back on the inter-bank market, it is an expensive business.

# WORLD BANKING IX

**WEST GERMAN BANKS' PERFORMANCE 1981**

| | Group assets (DM bn) | Per cent change | Parent bank assets (DM bn) | Per cent change | Parent bank interest surplus (DM bn) | Per cent change | Parent bank net income (DM m) | Per cent change | Dividend DM |
|---|---|---|---|---|---|---|---|---|---|
| Deutsche Bank | 196.4 | +10.0 | 114.5 | +10.0 | 3.4 | +21.4 | 242.0 | +19 | 10 (10) |
| Dresdner Bank | 170.0 | + 6.7† | 79.6 | + 5.0 | 1.7 | +14.5 | 139.0 | −16 | 4 (6) |
| Commerzbank | 101.3 | + 1.3 | 64.3 | − 0.6 | 1.1 | +14.6 | nil | | nil |
| Bayerische Vereinsbank | 98.3 | + 6.4 | 56.5 | + 7.8 | 0.9 | +16.1 | 109.9 | +10 | 9 (9) |
| Bayerische Hypo | 89.2 | +16.0 | 60.1 | + 5.8 | 0.9 | +11.0 | 81.8 | +27 | 7.50 (7) |

† Business volume.

# International activity will remain subdued

## West Germany

STEWART FLEMING

FOR THE first time for almost two years West German bankers can look forward into the immediate future without the grim sense of foreboding which has been the constant companion of so many of them since the middle of 1980.

The combination of a dramatic and unexpected change for the worse in Germany's economic performance in that year and ill-judged management decisions ripped holes in the profit and loss accounts of all but the most adroit banking institutions in 1980 and much of 1981. But as last year drew to a close and the German central bank, the Bundesbank, found room to begin to relax its tight monetary policy the bankers themselves began to shake off the pessimism which had gripped them and to face up to the formidable problems which still lie ahead with rather more confidence than seemed likely even a few months earlier.

One indication of the change in mood was provided by the Bayerische Hypotheken und Wechsel Bank, which after having cut its dividend from DM 9 to DM 7 in 1980 announced that it was to pay a DM 7.50 dividend for 1981, a reflection of the improving outlook in the industry.

That the burdens of the past will not be so lightly disposed of in all cases was underlined by the dividend decisions of the second and third largest banks, Dresdner Bank and Commerzbank. Dresdner announced a second consecutive cut in its annual dividend while Commerzbank, despite a significant recovery in earnings from the seriously depressed levels of the previous year when it escaped declaring a loss only by drawing heavily on hidden reserves, decided it could not pay a dividend at all for the second year in succession.

The key to the more optimistic mood in the banks was the significant improvement in West Germany's international economic performance. After the world record current account deficit of DM 30bn in 1980 last year saw the deficit almost halved to DM 17bn against the background of early signs of a slowdown in domestic inflation and a stronger performance of the D-Mark on the foreign exchanges as the year progressed.

These trends enabled the Bundesbank in October last to begin to ease the tight monetary policy it had introduced in February when it announced a dramatic 3 percentage points rise in its Lombard facility with the introduction of a "special Lombard" rate of 12 per cent.

For the banks the abrupt rise in both short- and long-term interest rates which followed the Bundesbank decision was a nightmare. Many had aggressively expanded their lending during 1976-78 through making fixed interest loans at 10 per cent and lower. Now they were suddenly being forced to fund a substantial proportion of these loan portfolios at 12 and 13 per cent, so incurring losses. The scale of the problem varied from bank to bank. Commerzbank's mismatched loan portfolio was over DM 20bn, those of Dresdner Bank and Westdeutsche Landesbank over DM 10bn.

On top of this burden the rise in long-term interest rates also threatened to force the banks to make further heavy write-offs on their fixed interest bond portfolios.

The recession in the domestic economy also meant that lending volume was stagnating at home. Internationally the banks' own increasing caution and the mounting pressures from German regulators for the banks to submit consolidated accounts which would require stronger capital backing also curbed the private banking industry's expansion.

Not all banking groups were equally hard hit of course. Thanks to its strong position in the market for cheap savings deposits and its shrewder judgment of international and domestic interest rate trends, Deutsche Bank, the industry leader, avoided the worst of the industry's problems, as did Bayerische Vereinsbank.

In October, however, the Bundesbank took the first steps to adjust its monetary policy by cutting the "special Lombard" rate from 12 per cent to 11 per cent. The steady decline in rates at both the short and the long end of the market, which has continued since then and has brought yields and money costs down to the 9 per cent mark, not only virtually eliminated any need for the banks to write down bond portfolios at the end of the year but also presented them with big profit-making opportunities.

Heavy investment in bonds produced hefty capital gains and the banks' profit-conscious lending policies, according to which they reduced their lending charges much more slowly that the fall in their own cost of funds, contributed to a substantial improvement in lending margins on new business which had been undertaken at peak rates during the year.

Thus as they presented their annual figures some banks were able to hint at a dramatic improvement in earnings. Shareholders, however have by and large not been invited to share in the end-year bonanza by way of higher dividends. There are a variety of reasons for this.

One is that the banks are well aware that there has been a change of climate in the past two years and that in future they will have to generate more of their capital internally instead of making the regular calls on their owners for new equity which was such a feature of the past. The importance of internal capital generation is reinforced by the expectations that a reform of German banking law will eventually lead to the banks having to operate with a stronger published capital base.

Another consideration which is influencing the bankers is their perception of the increased risks in their portfolios.

The challenges the banks face in their domestic markets, the demands their customers at home will make on them as the economic cycle turns up and the weakened position of some of the bigger banks which had played so aggressive a role in international markets in the 1970s all suggests that with the exception of Deutsche Bank, which has performed so strongly in the past two years, Germany's banking industry will continue to have a much lower profile around the world than seemed likely a few years ago.

# State takeover leaves few scars

## France

DAVID HOUSEGO

The French Government has taken 36 of the country's banks into state ownership this year. It is a measure without precedent in West Europe since the war. When the full scope of the Socialists' ambitions became clear last summer it caused a great deal of trembling among bankers and industrialists over the threat of state directed lending.

Bankers and their clients still remain apprehensive of increased government control over lending, interest rates and money market operations. But few of the worst fears have so far materialised, and French bankers still rub their eyes in disbelief that after the storm clouds of some months ago the landscape around them appears so little changed. "The reforms that are being talked about now are the reforms that have been in the air for years," says one banker who believes that out of the mountain has emerged a mouse.

There are several factors that make for continuity. The new chairmen of the banks have in most cases proven managerial experience and could as easily have been appointed to their posts by the previous government as by this one.

M Jean-Yves Haberer came from being Director of the Treasury to head Paribas. M Rene Thomas, a graduate of the elite Ecole Nationale d'Administration (ENA) the new chairman of BNP was already an assistant director of the bank. M David Dautresme who has taken over Credit du Nord is also an ENA graduate with years of experience at Credit Lyonnais behind him.

The letter that each new chairman has received from M Jacques Delors, the Minister of Finance, specifying his immediate task—the only formal statement so far of what is expected of the newly nationalised banks—put the emphasis on continuity and maintaining a healthy balance sheet.

The strongest reason for believing that profitability will continue to be a major criterion of management is that the banks are expected to contribute heavily to paying off the compensation costs of nationalisation. Their own operations abroad would also become more difficult if their profitability and capital ratios remained weak.

However, uncertainty still remains. M Delors and his advisers must want to tread warily, but that is not the case with the more militant in the Socialist Party. Their main aim following the nationalisation of credit is to see funds directed towards long term lending for industry, in line with priorities set by the State.

The major decisions have yet to be taken on the new banking law to be put before the National Assembly later this year; on the Bloch-Laine report on the reform of the banking system, which has retained some of the more radical Socalist proposals such as making the banks directly dependent for their refinancing on the Bank of France rather than on the money market; and on the report on savings recently submitted by M Dautresme, the new head of Credit du Nord.

Above all the fear of Government intervention stems most from the belief that the pressure of trying to finance higher levels of state expenditure and investment than the budget can withstand will tempt the Government to use the banks as a milch-cow. There are some signs of this happening already. M Laurent Fabius, Minister of the Budget, has said that the reduction of industry's tax burden recently announced by the Government would in part be financed by a new levy on the banks.

If the full impact of nationalisation has yet to be felt, two changes have taken place affecting the environment in which banks operate. In an attempt to provide cheaper credit for industry, the Government has held down banks' base lending rate while raising money market rates to protect the parity of the franc. At its worst in March this meant that the cost at which banks bought funds on the money market—a peak 18 per cent during last month's speculation against the franc—was four points above a base lending rate of 14 per cent.

The banks most badly hit by this have been those without their own deposit base—most of the foreign banks and French banks such as Paribas, Indosuez, Banque de l'Union Europeenne, Worms, and Credit Commercial de France (CCF) which are more dependent on the money market for their resources. In the case of the French banks, the Government sees the answer to the problem of this gap between the rates as a regrouping of banks to bring together those with resources of their own and those who currently rely on the money market. But over the past year those French banks dependent for funds on the money market have seen their margins on their French activities badly suffer.

The second change has flowed from the Government's decision in September to limit the interest that banks can pay on most term deposit accounts in an attempt to push savings into longer term instruments. The result has been a substantial shift of funds. Term deposit accounts which had grown by 26.7 per cent in the January-August period last year on Bank of France figures contracted by 12 per cent in the past four months of the year.

The shift of money has been into current accounts—other savings accounts and to a limited extent bonds. The move to current accounts, on which banks pay no interest, has helped boost margins for banks with a large deposit base and minimum call on the money market.

Banks and money market operators have developed a new type of mutual fund—the so-called "*fonds communes*" to provide through the bond market the higher returns that investors could obtain through term deposit accounts.

Of the changes in the banking sector that are in the pipeline, the most substantial in the near future is likely to be some regrouping of banks, both to take account of their resources base and the fact that nationalisation has deprived some of them, such as Rothschild, Vernes and Union Europeenne, of their specific roles.

Of more radical measures once under discussion, little is now heard of abandoning "encadrement" — the system of annual credit ceilings imposed on banks in France — and which both bankers and Socialists have attacked. The idea of a new state investment bank has been dropped, and M Delors still appears hostile to banks obtaining their refinancing at fixed rates directly through the Bank of France.

Potentially the most radical change remains the application of a new credit policy under which banks would lend long term in line with the priorities set by the Government. However, the Government has not yet decided on its priorities nor on how it wants banks to apply them.

# WORLD BANKING X

# All the trappings of a good year

## United Kingdom

WILLIAM HALL

IF ANYONE is in any doubt about just how profitable domestic banking is in Britain he should turn to page 83 of the annual report of Barclays Bank, Britain's biggest bank and one of the most profitable in the world.

Following its foray into the U.S. capital markets Barclays is the first UK bank to move closer to the American form of disclosure; tucked away in the footnote to the latest accounts is a table which shows that the interest margin (net interest income as a percentage of average interest earnings assets) on domestic business was 7.2 per cent last year. This compares with 2.7 per cent on the group's international business.

The other British banks do not disclose this sort of information, unfortunately, but it is clear that while their margins might not be as spectacular as those of Barclays, they are still doing well. This has insulated them from the worst ravages of the recession both in Britain and the world at large and the Big Four clearing banks managed to reduce their overall charge for bad and doubtful debts during the year by some 5 per cent to £382m.

British banks had a good year in 1981. The combined pre-tax profits of the Big Four rose by 15 per cent, comfortably ahead of the domestic rate of inflation. According to a recent study by W. Greenwell, the City stockbrokers, the banks domestic operations, roughly half the total, increased their aggregate earnings by 11 per cent last year; the international operations were up 30 per cent and related financial services were up 45 per cent.

The main feaures of the last 12 months in British banking have been as follows.

- The UK authorities last August brought to an end the era of "Competition and Credit Control" launched in May, 1971 and introduced a new system of monetary control operating directly on banks' reserves. Minimum Lending Rate, cash ratios and minimum reserve requirement were all abolished and replaced by a uniform requirement that all banks lodge ½ per cent of their eligible liabilities in a non-interest bearing account at the Bank of England.
- The banks launched a major attack on the home loan market, traditionally dominated by the building societies, and by the end of the year were doing two-fifths of all new mortgage lending.
- The Bank of England's powers to regulate takeovers in the UK banking system were tested for the first time when the Hongkong & Shanghai Bank launched a £500m bid for the Royal Bank of Scotland against the Bank of England's wishes. The Monopolies and Mergers Commission rejected the bid along with that from the Standard Chartered Bank for the Royal Bank. Clarification of the Bank of England's powers in this area is needed, however.
- The Government decided not to impose a "windfall profits" tax on the banks for the second year running but has upset the banks' chairmen by saying: "We shall need to give much further thought in the coming year to the problem of how best to ensure a sufficient contribution to tax revenues from the banking sector."
- Midland Bank made the biggest foreign takeover of a U.S. bank when it paid $712.5m for a 54 per cent stake in California's Crocker National Corporation. The "alliance," as it is referred to, has produced one of the 10 leading banking groups in the world, with assets of around $80bn.
- On June 1 last the clearing banks abandoned several agency agreements covering common charging policies, including one whereby personal customers of one bank could cash cheques without charge at any other clearing bank. Several bankers argued that this damaged the public's perception of the industry but others said it was evidence of the more competitive climate.

**BRITAIN'S MAJOR BANKS 1981**

| | Assets (£bn) | Growth per cent | Pre-tax profits (£m) | Growth per cent | Market capitalisation (£m) |
|---|---|---|---|---|---|
| Barclays | 48.8 | 31.4 | 566.6 | 8.2 | 1,250 |
| NatWest | 43.3 | 25.3 | 494.0 | 20.5 | 990 |
| Midland | 41.0 | 61.8 | 232.2 | — | 525 |
| Lloyds | 27.7 | 39.2 | 385.6 | 33.0 | 748 |
| Standard Chartered | 19.8 | 28.6 | 260.4 | 12.0 | 540 |
| Ryl. Bk. of Scotland* | 7.8 | 26.3 | 107.9 | 5.3 | 244 |
| Grindlays | 4.5 | 16.6 | 34.5 | 2.4 | 61 |
| Bank of Scotland† | 4.4 | 22.2 | 47.2 | 9.0 | 131 |

* Year end September 1981. † Year end February 1982.

Within their domestic market UK banks faced a relatively difficult year with many of their corporate customers. Interest rates fell in the early part of the year before climbing back up again. However, on balance average base bank rates fell by around a fifth to 13.2 per cent. The banks responded by widening their margins between deposit and base rates to bolster their profits.

Industrial borrowing was sluggish for much of the year. Companies were running down stocks and curtailing investment, added to which the Civil Service staff dispute left sizeable amounts of unpaid taxes with the corporate sector, all of which reduced their demand for funds for much of the period.

By contrast the banks increased their lending to the personal sector very substantially. For years this lending has been restricted by official controls but since the ending of the so-called "corset," in the summer of 1980, the banks have been expanding their personal lending rapidly. The attractions are that it is relatively high-margin and in the case of home buyers virtually risk-free.

Their main target has been the building societies, which have been siphoning off deposits from the banking sector for the last decade. Aside from increasing their loan portfolios the UK banks believe that their invasion of the home loan market will help repair their deposit base by squeezing the building societies margins and preventing them from paying above the odds for money.

In the year to mid-February the London clearing banks doubled their house loan portfolio to more than £4bn and UK banks as a whole are now lending at the rate of over £300m a month. The building societies are becoming resigned to the fact that the banks are in this market to stay.

The other new feature to which the banks have had to adapt over the last year has been the new system of monetary controls. The changes are a move in the direction of monetary base control, although they fall far short of the full thing. In addition, although the new system is supposed to give greater play to market forces, it is clear that the authorities are still as ready as ever to signal what they feel should happen to interest rates.

One useful side effect of the changes is that the Bank of England is operating much more actively in the commercial bill market and to this end it has increased the number of players in the game and added the London branches of several foreign banks to its list of banks whose paper it will buy during its money market operations. As a result of the much bigger volumes going through the market the "bill on London"—traditional instrument of international trade—has had a welcome revival.

# Difficult task ahead to maintain profits

## Ireland

BRENDAN KEENAN

IRISH BANKS, particularly at the retail end, face a period of exceptional business and political difficulties. The chill winds now blowing feel all the harsher because of the favourable climatea which Irish banks enjoyed during the 1970s.

During that decade, real growth in the Irish economy averaged over 3 per cent. The four retail banks—known in Ireland as the associated banks (AIB)—saw their total resources grow by almost 20 per cent during 1971-76 and by the same percentage again between 1976 and last year.

The growth in the merchant and industrial banking sector was even more spectacular. This sector, which now includes some of the big names in international banking, grew by almost 50 per cent during the decade.

This growth was reflected in profitability, and in benefits to the shareholders. Earnings and dividends per share grew by more than 20 per cent per annum during the period.

With hindsight it is clear that a high-water mark was reached in 1978. For the big two banks in the Republic, Bank of Ireland and Allied Irish, net profits as a percentage of gross assets that year reached 1.35 per cent and 1.12 per cent respectively.

The general deterioration in the Irish economy since then, with little real growth, has obviously inhibited bank performance. Rising inflation and interest rates have curbed deposit and current account growth, as has stiff competition from building societies, which offer tax advantages.

The banks, though, have ridden out the storm with remarkable success. They have certainly continued to be profitable; in the three years to March 1981 net earnings per share increased by 10 per cent per annum at Bank of Ireland and 14 per cent at AIB.

Profitability continues to be above the levels of the early 70s; the 1978 period was one where conditions were exceptionally favourable.

The fact remains that present Irish conditions are unfavourable and apparently worsening. It is going to be difficult for the banks to maintain their record in the face of continuing 20 per cent inflation, near-zero economic growth rates and continuing pressure on liquidity.

Interest rates have already been forced by this pressure to over 20 per cent for ordinary borrowers. Even the top companies must pay 19 per cent for their money.

These record rates do not appear to have eased the pressure to any significant degree and bankers fear rates may go yet higher. The intractable balance of payments deficit and the continued high government borrowing (estimated at over I£1.6bn this year) are major sources of stress.

The pressure may increase as the Government tries to reduce foreign borrowing and seeks more funds on the domestic market. The central bank, which can only put its finger in the private-sector dyke, while the tide of Government credit expansion washes over it, is none the less plugging the dyke as firmly as it can.

Personal credit came almost to a halt while the Bank produced this year's limits, which were delayed by the fall of the Government in January. Total lending will not be allowed to grow by more than 14 per cent this year.

All of this means there is little optimism about an early fall in interest rates. Some top bankers fear that the country's productive industrial and agricultural base will be whittled away by the cost of money.

The banks are already feeling the impact. The bad debt provisions for this year "will frighten everyone," in the words of a banker. The banks have joined in a I£10m rescue scheme for some of the country's worst affected farmers.

It was either that or write off the debts and face the odium of evicting farmers from their land.

Odium is something the Irish banks can do without right now. On top of these difficult conditions—"the worst in 60 years," said one banker—has come the issue of the bank levies.

Levies first appeared as part of the emergency budget which the newly elected Government of Dr Garrett FitzGerald introduced last July. The idea clearly came from the UK levy on windfall profits although Irish bankers claim that they made no similar profits.

But levies reappeared in the full budget of January and had tripled to I£15m. That budget was defeated and brought down Dr FitzGerald's administration but the levy was increased to I£20m by the new Government.

Bankers feel, and not without reason, that levies have become a new source of revenue for hard-pressed Ministers for Finance, even though the present incumbent, Mr Ray McSharry, has said the whole question of bank taxation will be examined.

Although banks are liable to corporation tax at 45 per cent, their actual tax charges are much lower. This is because of the growth in low interest loans and leasing deals to industry, which reduces the banks' tax liability.

The banks benefit marginally from this arrangement, as well as obtaining extra business but the main benefits accrue to the companies concerned; this type of business has become a major incentive for Irish and foreign-owned industry.

The banks have not been able to get this message across, however, and there have been growing demands for them to pay more tax. Bankers feel particularly aggrieved because Ministers, who are aware of the facts, have tacitly accepted the argument that the banks should pay more—despite the privately expressed reservations of the central bank.

It will not be easy to resolve this dilemma. Tax-based lending is a haphazard and inefficient form of incentive but replacing it would be expensive. On the other hand, if the banks face more levies they may retaliate by withdrawing from this form of business.

On top of these difficulties comes the need to win the agreement of the powerful staff union, the IBOA, to computerised banking. It is beginning to look as though the cost of this will be 25 per cent on pay over the next four years, on top of the current 15 per cent 15-month pay agreement and whatever agreements may follow it.

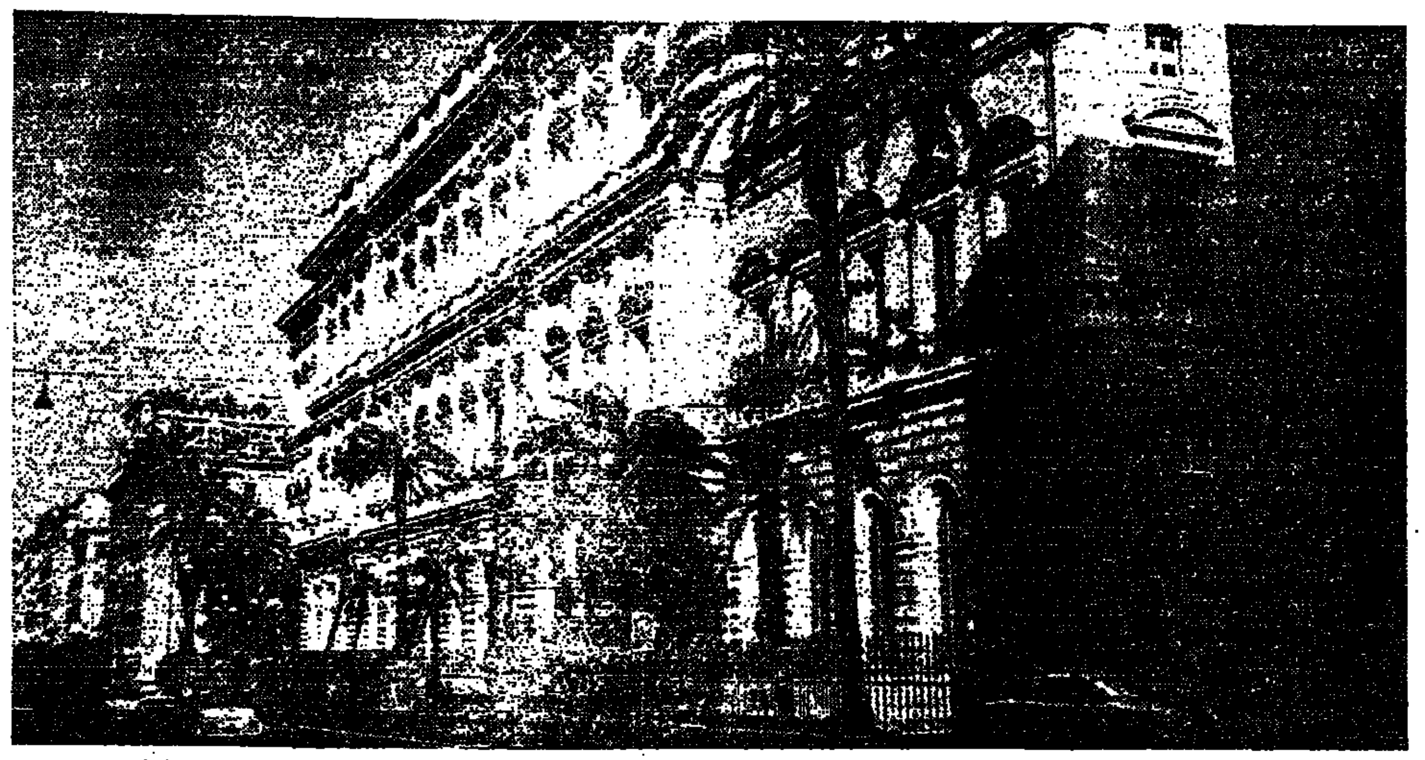
Senior bankers gloomily concede that this will push the payback period for the new technology towards a length of seven years but believe it is still essential that the Irish banks introduce methods already agreed in their Northern Ireland and mainland UK branches.

Government brokers Riada and Co., in a review of the big two banks earlier this year, endeavoured to isolate underlying profitability from these exceptional factors. They suggested that the banks' net income would increase by around 15 per cent in 1983.

Riada and Co. were assuming, however, a levy of I£10m, so their forecasts for actual profits this year are somewhat optimistic. Even so they expected net profits to show no growth at Bank of Ireland and to fall by 3 per cent at AIB.

The argument is that the Irish banks are still basically profitable and that there has been a run of exceptional factors going back to costs associated with Ireland's joining the EMS and running up to the technology deal and the levies.

Bankers—and shareholders—are hoping that the run has ended and that a more settled period will allow the strength of Irish banking to show through.



*Rome office of the Bank of Italy, the country's central bank*

# Electronic networks could be unifying force

## Italy

JAMES BUXTON

THE GUTS of the latest booklet from the Bank of Italy, the central bank, lie in two pages of algebraic formulae, supported by tables and mathematical explanations. The booklet is not on the arcane subject of the money supply but on the down-to-earth issue of bank branches.

The Bank of Italy controls how many branches a bank may have and where they are to be located. If a bank wants to move an existing branch from one street to another the Bank of Italy must give its consent first. No new branches have been allowed in Italy since 1978—to the detriment of, among others, people living on new suburban development.

Now, after receiving more than 3,000 applications, the Bank has decided to issue permits for another 621 branches. The formulae were used to calculate whether, by the central bank's criteria, a new branch in a certain area was justified. When the new permits are acted upon there will be nearly 12,000 branches in Italy.

The reason for the control of branches—as Sig Antonio Fazio, the central bank's Vice-Director General explains—is to prevent too many branches opening in the same place, leading to destructive competition and deterioration of services to the customer. The policy is only really explicable in the context of a banking system that is already rigidly controlled in virtually every other respect.

The most striking feature of the Italian banking system is its fragmentation. There are nearly 1,100 institutions, ranging from the Banca Nazionale del Lavoro, with nearly L40,000bn of assets in 1980, to banks like the Cassa Rurale ed Artigiana di Santa Maria della Croce, with a single branch at Crema near Milan and assets of L14bn.

In fact the small banks of the latter kind are the backbone of the system and the mainstay of the saver and businessman. There are about 900—savings banks, rural banks and co-operative banks. Many of the smaller have only one branch but many of the 90-odd savings banks are important though locally based institutions. Among them is Cariplo (Cassa di Risparmio delle Province Lombarde), the fifth biggest bank in Italy and one of the most dynamic. All these banks are in effect state-controlled.

The next group of banks are the private banks, leading a somewhat anomalous existence between the state-controlled concerns on either side of them. The biggest is Banco Ambrosiano and its subsidiary Banca Cattolica del Veneto (the bank which in 1980 produced the biggest profits of any Italian bank). Both these concerns are run by Sig Roberto Calvi, a leading and somewhat controversial figure in Italian finance. They are known to be managed, like most private banks, leanly and efficiently.

At the top of the system there are 31 large banks controlled by the state, mainly through the Treasury, with three—Banca Commerciale Italiana, Credito Italiano and Banco di Roma—controlled by IRI, the state holding company. They are respectively the second, third and four biggest in the country, after Banca Nazionale del Lavoro.

But despite the fact that these banks have national networks and account for most of the banking system's presence abroad, they do not dominate it in the way the large banks dominate the UK or West German banking scenes. For the average Italian in a little town the local bank is likely to be one that few other Italians will have heard of.

The existence of so many banks combined with the very strict rules about how they operate—they must, for example, keep all cheques and other documents for ten years—produce an inefficient, heavily staffed system. Only recently has there been an inter-bank money market. Communications between the banks are usually poor, though each of the big banks has its own sophisticated electronic network. It can take up to four weeks to clear a cheque drawn on a different bank.

Yet despite the original bank merger there is no official *policy for rationalising* the structure of the banking system. The task would anyway be so great as to be daunting—and arguably not the main priority for the banking system at the moment. The banks face more pressing problems; a continuing decline in deposits in real terms and under-capitalisation. In addition there are the related challenges of meeting the increasingly sophisticated demands of many customers and the competition in these fields from the growing number of foreign banks, concentrated mainly in Milan.

The decline in deposits is the result of the fierce competition for funds mounted by the Government, which now finances its enormous public sector deficit—amounting to 11 per cent of Gross Domestic Product in 1981—with Treasury Bills. Savers can easily buy them, by-passing the banks, and they avoid tax on the interest. The deposits problem may partly account for the fact that the banks are currently making larger profits but in the longer term—when the current credit squeeze is finally eased—it presents serious difficulties.

So far the banks have not formulated a coherent response to it. No bank has yet taken the bold but essential step of declaring what rate it is actually prepared to pay to depositors. The official rate is only 11 per cent, against the prime lending rate of 21.75 per cent, but most customers receive an undisclosed higher figure on a discretionary basis. Nor has anything been done to make a firm distinction between current accounts and deposit accounts. Banks pay interest on all accounts, which discourages customers from withdrawing cash and from using their cheque books to make purchases.

The under-capitalisation of the banks is partly a reflection of the under-capitalisation that afflicts almost every concern in Italy and is aggravated by the dominance of the system by the perennially hard-up state. But the knot of this problem is gradually being loosened. The state has accepted that it would not lose much effective control of the system if it retained just 51 per cent of the bank's equity.

As a result a process has begun whereby the public will get a larger share of the three Iri banks, while Banca Nazionale del Lavoro, which does not currently have shareholders, will be allowed to issue non-voting shares which will enable it to increase its very low paid-up equity capital—currently only L60bn, a fact that causes it some embarrassment in its overseas operation. But some of the other state banks may find it more difficult to emulate BNL, since the public may not regard them as such good risks.

Though a few of the foreign banks do operate in the retail sector of the market—demonstrating that it is possible to keep within the law and yet offer a speedy service—their main role has been in dealing with corporate clients, assisting with their problems of export finance, foreign exchange, accountancy, taxation and so on. They have also developed leasing and factoring to an enormous extent in Italy, with banks such as Barclays obtaining in this way a presence up and down the peninsula which the regulations deny it in bank branches (of which it has only two, in Milan and Rome).

In the fields of leasing and factoring the foreign banks have undoubtedly paved the way for the Italian banks, pioneering a type of financing which is curiously well suited to the Italian way of doing business. The Italian banks, hamstrung in many of their other operations, see these and other "para-banking" fields as one of their best lines of advance. But the banks are finding it increasingly difficult to get sufficiently good staff to run their expanding operations and make up for the emigration of some of their best people to the foreign banks.

Something is also happening to transform the services that the Italian banks give to the customer — yet few people appear to have heard about it. Just as in the U.S. the fragmentation of bank ownership is being overcome by electronics, so the same thing is on the verge of happening in Italy.

So far only the tight-knit and well-organised group of 90 savings banks have their own teleprocessing network uniting separate institutions — enabling transactions to be communicated electronically. Early this year they also launched the first inter-bank network of automatic teller machines situated outside bank branches. These already permit the customer of one savings bank to draw funds at another. In due course customers will be able to check their statements, make deposits and carry out other transactions on the machines, thus avoiding the tedium of actually going into a bank.

But even more significant is the fact that the other major banks are now discussing how to make their existing or planned automatic teller machines or cash dispenser networks communicate with each other. This facility should come into operation next spring, with the name of Bancamat, giving Italy the first national electronic banking network in the world.

The next but more complicated stage will be the merging of the banks' existing teleprocessing networks. This presents serious technical difficulties—since each bank had developed its own system independently — but once installed would theoretically end the present difficulties of clearing cheques and making transfers. If that happens Italy will have virtually jumped a whole intermediate stage in the development of its banking system and the big banks will have been forced into giving more attention to their small private customers rather than their big corporate ones.

# Earnings improve but not without headaches

SWITZERLAND'S high-powered banking system continued to grow last year. Overall assets of the 71 reporting banks were up by 9.3 per cent—or by 14.8 per cent after inclusion for the first time of precious metal accounts —and the total for fiduciary business outside the balance sheets rose by 28.3 per cent. Most banks again showed improved earnings and aggregate profits seem to have risen. Initial indications are that this year should produce at least no worse a showing.

Despite this, Swiss financiers have recently been suffering from a series of headaches. For all banks 1981 was what Union Bank of Switzerland chairman Dr Robert Holzach called a "year of challenge." For some, *specific problems made it into* a period of considerable worry.

The biggest single difficulty was that posed by distortions of the domestic interest structure. In the wake of high U.S. interest rates, together with an abandonment of the National Bank's attempts to dampen rates at home, Swiss short-term rates reached giddy heights. By *October* three-month time deposits were fetching over 10 per cent and the yield on Federal money-market certifi*cates of the same maturity* 9.3 per cent; Euro-Swiss franc rates were higher still.

In comparison the country's important savings sector was continuing to work with an average pay-out of a meagre 3½ per cent. This was not only substantially lower than the return on short-term investments but rarely half the pre*vailing rate of inflation.*

Not surprisingly, there was a marked shift out of savings and deposit accounts into the much more profitable short-term sector and, towards the end of the year, into the banks' own medium-term over-the-counter bonds. This net withdrawal of cheap deposits, the first the Swiss banks had experienced since the war, led to a serious problem in connection with the financing of domestic loans. This applied particularly to the mortgage sector, since Switzerland traditionally has the *highest mortgage debt per* capita in the world, as well as the highest savings ratio.

To an increasing extent the financing of new advances was costing more than the incoming interest. By autumn, virtually every loan to a Swiss client was producing a temporary loss for the bank.

This disparity was particularly hard on the cantonal and regional banks, much of whose business is in the savings and mortgage sector. However, two *of the country's Big Five*— Crédit Suisse and Swiss Volksbank—also attributed a fall in net profits largely to the mis*matching of interest earned and* interest paid. In the case of the Volksbank profits slumped badly enough for the board to *halve the dividend.*

In the past few months things have been looking brighter. With the bank rate back to 5½ per cent, having been at a peak 6 per cent between September and March, interest rates are generally considerably lower. By mid-April the Euro-Swiss franc's three-month rate, for example, was down to 5 per cent and the latest yield on Federal three-month paper to only a little more.

At the same time savings *deposits interest has* been brought up to around 4 per cent —or little less than the March inflation rate of 4.7 per cent —while banks are earning rather more since putting up the mortgage rate to 6 per cent on March 1. Despite this, it looks as though interest margins will be little broader this year.

The slowdown in the national economy has also meant a falling-off in demand for credit.

*Nor was much desire shown* to make up for this by new loans to foreign clients. International recession and a reluctance to assume new sovereign risks meant that the supply of credit to non-Swiss customers ex-

## Switzerland

JOHN WICKS

panded by only 2.6 per cent over 1981, as compared with a 10.8 per cent rise in domestic advances. These two factors meant that in the second half of last year total balance sheets showed only a minimal growth before the addition of the precious-metal accounts.

Apart from the lack-lustre development of domestic loan business in the past few months, bankers are increasingly concerned at the rising bad risk share in their Swiss loan portfolios. More and more, banks are feeling they must rally round corporate clients in trouble.

Union Bank of Switzerland, for instance, wrote off SwFr 128m on such funding operations in the 12 months ending last September and has *indicated that further rescue* projects are probable. Actual mis-judging of local risks can be very costly, as the Lucerne Cantonal Bank recently found when it totted up a loss of SwFr 42m in two bad risk cases and had to transfer SwFr 38m from its reserves.

The *biggest* setback experienced by a Swiss bank in the past months also involved an error of judgment within Switzerland itself. The Berne-based Swiss Volksbank experienced losses of nearly SwFr 140m—which it has also covered with provisions from "hidden" reserves—as a result of ill-advised operations of its Geneva branch in forward silver transactions in 1979.

The Swiss Banking Commis*sion, incidentally, latched on* to the Lucerne and Volksbank affairs to put right what it felt was the papering over of banks' losses by activation of unpublished reserves. Offsetting moves of this kind will remain permissible but will have to be disclosed in published accounts. In Volksbank's 1981 report, published in February, this took the form of a profit and loss account entry concerning the transfer of hidden reserves on property.

There were instances elsewhere of the control authorities reacting to specific or general occurrences involving Swiss banks. One of the most interesting in an international framework has been that in connection with alleged insider deals in the U.S. The New York Securities and Exchange Commission claimed last spring that Banca della Svizzera Italiana of Lugano had been engaged in insider transactions before a Seagram's take-over *bid for St Joe Minerals of* New York. Later other Swiss banks were said to have been involved in similar deals at the time of the Santa Fe bid by Kuwait.

Generally speaking, banks continue to be painfully aware of the need to keep their image bright. Generous White Knight efforts such as that to keep the *crisis-stricken SSIH watch group* going have helped but critics have been quick to pounce on apparent or actual abuses of banking facilities. Moreover, though through no real fault of their own, the banks have *come under heavy fire recently* for increasing mortgage rates.

Everyone is very much aware of the "Banking Motion" due to come up for a referendum vote some time after next year's general elections. Though the Cabinet does not back this Social Democratic-Trade Union move to weaken the clout of Swiss bankers, any sudden increase in public disfavour would obviously be bad news for the banks. At the same time this could well be reflected in *current preparatory* work on the revision of the Bank Act.

As it is, the world of finance has been unpleasantly surprised by Parliament's readiness to discuss new forms of bank taxation. In August the National Council's consultative committee will look at the possibilities of stamp duty on fiduciary accounts, a 5-per cent with*holding tax on fiduciary account* interest or a 35 per cent withholding tax on domestic income from both fiduciary accounts and foreign *Swiss-franc bonds.*

Without suffering from a persecution complex, bankers are concerned at what they see as a lack of sympathy and understanding at home. Switzerland is, they fear, losing ground as a financial centre.

## SWITZERLAND'S BIG FIVE BANKS

(SwFr m)

| | Balance sheet total 1980 | Balance sheet total 1981† | Due from banks 1980 | Due from banks 1981 | Advances to customers 1980 | Advances to customers 1981 | Due to banks 1980 | Due to banks 1981 | Customers' deposits 1980 | Customers' deposits 1981 | Net profits 1980 | Net profits 1981 | Netprofit change per cent |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Union Bank of Switzerland, Zurich | 77,526 | 93,738 | 23,176 | 24,710 | 38,359 | 43,084 | 20,329 | 26,734 | 46,627 | 54,926 | 334.1 | 381.7 | +14.3 |
| Swiss Bank Corporation, Basle | 74,109 | 87,555 | 22,035 | 27,268 | 36,047 | 38,271 | 21,792 | 25,515 | 43,616 | 52,830 | 286.6 | 321.7 | +12.2 |
| Credit Suisse, Zurich | 63,475 | 73,578 | 15,016 | 16,247 | 33,468 | 36,996 | 19,830 | 22,436 | 36,393 | 43,179 | 281.0 | 275.7 | − 1.8 |
| Swiss Volksbank, Berne | 17,854 | 18,762 | 1,339 | 1,499 | 13,887 | 14,199 | 2,635 | 2,278 | 13,610 | 14,777 | 68.9 | 36.0 | −47.7 |
| Bank Leu, Zurich | 6,429 | 8,589 | 2,267 | 3,719 | 2,440 | 2,863 | 1,736 | 2,997 | 3,702 | 4,483 | 27.0 | 29.7 | +10.2 |

† Includes precious-metal accounts (not included before December 31 1981).

# More modest expansion for international role

WITH ALMOST 120 international banks operating out of Luxembourg, it is now a mature international financial centre. This is one reason why bankers there readily admit that the spectacular growth which characterised the Grand Duchy's banking role in the 1970s is probably over.

"Most of the banks which are likely to want a Luxembourg base are already here. There will be a trickle of new entrants into the market in the future of course, but as far as expansion is concerned, it will be much more dependent in the future on the expansion of the markets *in which the banks operate, and much less on new arrivals*" is how one Luxembourg banker describes the situation.

The maturing of Luxembourg as a financial centre is, however, only one reason why observers, and even government officials, have been willing to concede that a period of at best modest expansion lies ahead in *the traditional lines of banking* business, and why the Government itself has been encouraging the banks that are there to broaden the range of financial activities they undertake. In addition it is conceded that a period of slower growth lies ahead in the traditional lines of banking business which Luxembourg's banks, in par*ticular the German-owned* banks, are engaged in.

The Grand Duchy's evolution into an international banking centre which began around 15 years ago was based on the decision of the German banking industry to develop an "offshore" international banking base there, free from the constraints imposed on them by *strict, bureaucratic,* German banking laws, and free from the minimum reserve requirements imposed by the Bundesbank, the German central bank.

The fact that only about one-third of the banks operating in Luxembourg are German-owned understates their role, for they account for about half the total assets of the foreign-owned banks in Luxembourg.

*It is the German-owned subsidiaries which are the largest institutions, and the German Mark which is the key interna-*

## Luxembourg

STEWART FLEMING

tional currency, although the U.S. dollar has gained in importance.

It was thus inevitable that, as the German banking industry plunged into earnings problems in the past two years, and began to concentrate much less on volume growth and much more on profitability, as well as taking a much more critical view of international Euromarket lending and especi*ally inter-bank lending,* the Luxembourg subsidiaries would be among the first to feel the impact of these policy changes.

Another factor at work, however, has been the signs that one of the basic factors accounting for the growth of German banks business in Luxembourg, namely freedom from the German banking laws, was to be modified. *Already the private* commercial banks have reached a "gentleman's agreement" with the Bundesbank and the Federal Banking Office, for the submission of information which will allow the authorities to examine the banks on a consolidated basis, including their Luxembourg subsidiaries.

At this stage the exercise is for information only, and the public banks, the Landesbank and savings banks, not participating. At some point however new banking laws are expected. German bankers in Luxembourg doubt that it will seriously inhibit their business in the long term, but it is for the moment another reason for caution.

One area of expansion for the German banks over the past two years, which is expected to persist at least while interest rates remain high, is lending to their customers in Germany itself — something they can do more cheaply because of Luxembourg's freedom from minimum reserve requirements. Another potential area of development is serving private customers.

With the enthusiastic co-operation of the Luxembourg authorities who, for example, have strengthened bank secrecy legislation, the banks are actively trying to develop a stronger private customer base in the Grand Duchy, which it is hoped will become in some respects competitive with Switzerland.

Expansion in this area is, however, cautious, partly because it is costly but also because the prospects are uncertain and because of the lack of qualified personnel.

It is, however, a development which the Luxembourg authorities are anxious to see take root partly because of the importance of the banking industry as a taxpayer and employer.

# Bankruptcies leave blemishes on balance sheets

**Austria**

PAUL LENDVAI

"ONE CANNOT wait until someone comes to us. We have to fight for investors." This is how the Austrian Finance Minister, Dr Herbert Salcher, summed up in mid-April the results of a week-long visit to Japan by the largest ever high level Austrian delegation of bankers, state and private industry managers. The overriding aim of the Salcher mission was to prepare the ground for a substantial reduction of the Sch 7bn-plus (same £230m). Austrian trade deficit and to attract Japanese investments and funds.

AUSTRIA'S TOP TEN FINANCIAL INSTITUTIONS

(Balance sheet totals—Sch m)

| | End-1980 | End-1981 |
|---|---|---|
| Creditanstalt | 203,659 | 242,977 |
| Girozentrale | 158,180 | 176,661 |
| Laenderbank | 118,114 | 133,075 |
| Zentralsparkasse und Kommerzialbank Wien | 107,870 | 122,186 |
| Kontrollbank | 101,361 | 140,883 |
| Postsparkasse | 83,987 | 94,514 |
| Genossenschaftliche Zentralbank | 83,616 | 95,402 |
| Bank fuer Arbeit und Wirtschaft | 74,356 | 89,224 |
| Erste Oesterreichische Spar-casse | 71,372 | 84,914 |
| Volksbanken AG | 31,866 | 37,610 |

Sources: Annual Reports

The visit to Japan was an indication that despite the substantial improvement in Austria's external payments balance last year and during January-February this year the country will have to raise more money abroad in order to finance much needed investments in growth industries. The structural weaknesses of the Austrian economy are an excessively large sector of basic and declining industries coupled with too small a number of high technology and growth-intensive branches.

The time has come for a transition from verbal acknowledgement of the need for reappraisal to positive steps in economic, financial and credit policies. After a long period of uninterrupted growth combined with relative price stability and full employment, Austria now faces the price in form of a record budget deficit of least Sch 65bn. This year, even without taking into account the funds urgently needed by the nationalised steel and heavy industries. The growth of gross external debt by Sch 50bn to Sch 247bn last year is viewed with concern.

It is important to remember that Austria is still in terms of inflation one of the stablest countries in Europe, with performance this year likely to be even better than the 6.8 per cent figure recorded in 1981. But the rate of unemployment has risen from 1.9 per cent in 1980 to 2.4 per cent in 1981 and is thought to be already at least 3.1 per cent this year.

In view of the forthcoming general elections in April 1983 at the latest, the Socialist Government is even more reluctant than before to tolerate the rise of unemployment. The various schemes to promote investment and to create new jobs have engendered growing pressures on the central bank to inject more funds into the economy and to provide money for banks and industrial companies *which otherwise would have to* be declared insolvent. High interest rates, major insolvencies affecting also the banking sector, the country's very big *involvement in credits extended* to Poland, and to a much lesser extent to other Comecon *countries, as well as unsavoury* corruption scandals in Vienna and eastern Austria have combined to create a feeling of general malaise.

Regardless of the likely mild economic upswing expected for the second half of 1982 and the agreement to reduce deposit interest rates by half a per cent as of April 1, the banking sector faces a difficult period of adjustment.

The total liberalisation of the rules governing the opening of new bank branches and the end to the interest rate cartel affecting interest payable on savings deposits, as well as the rapid transition of all sectors of the banking industry into universal banks, have compounded the strains felt by the financial community as a result of the general worsening of international and domestic economic conditions.

The general deterioration of the economic environment and special factors such as major bankruptcies have left scars on *balance sheets*. All banks have had to increase risk provisions *on* credit and security business and the operating return on total assets generally declined last year. The cardinal event in the small world of Austrian banking was the unprecedented aid package put together by the Government — and after acrimonious debates and behind-the-scenes haggling approved by Parliament — for the Oesterreichische Laenderbank, the third largest bank, which is 60 per cent state-owned.

Laenderbank lost the staggering *sum of Sch 4.2bn in the* bankruptcies of the engineering group Oesterreichische Klimatechnik and the financial troubles of its wholly owned affiliate the camera producer Eumig. Even after having drawn in all some Sch 1.2bn *from open and hidden reserves*, Laenderbank will get over Sch 3bn of Government aid in the next 10 years or so to permit these debts to remain on the asset side and replace the interest income lost.

It cannot be excluded that the consolidation of the bank's affairs under the new managing board headed by Dr Franz Vranitzky will also involve shifts in the industrial holdings of the bank and possible changes in the control over affiliated banking institutions. Another major *step is the increase of the basic* capital of the Creditanstalt Bankverein, the top bank, by Sch 600m to Sch 2.4bn. Creditanstalt has also to deal, however, with growing stresses in its industrial empire, primarily with regard to Steyr-*Daimler-Puch, the motor manu*facturer, and Semperit, the rubber company.

The financial risks involved in the conflicting relationship of the Austrian nationalised banks and their extensive industrial holdings have become more apparent than ever. Nor is the relationship between the Treasury and the large nationalised banks on the one hand and the control of the banks over their industrial holdings on the other resolved. Dr Salcher, who took over just a year ago, has had some problems in dealing with the new directors-general of the two nationalised banks. In striking contrast to his predecessor, Dr Hannes Androsch, he has failed to establish a good working relationship with the overwhelmingly non- or anti-socialist Press.

Apart from the conflict of personalities the banking community was more affected by controversial plans to transform the Post Office Savings Bank (PSK) into a fully-fledged bank using *2,300 post offices* as branches. The competition for market shares has produced an over-branched system and the expansion of PSK as well as the dynamic growth of the outlets in consumer co-operatives operated by Bawag, the trades *union bank, add to the strains.*

Dr Karl Pale, director general of Girozentrale, the central institute of the savings banks, has issued a public warning against the uncontrolled and to some extent subsidised growth of special institutions such as the Kontrollbank (dealing with export finance), Investitionskredit (engaged in long-term development loans), the Post Office Bank, etc.

The sharp competition under the conditions of a somewhat lopsided structure has subjected the savings banks and farming co-operatives to stresses which their directors find unjust and also a danger to the health of the financial community. The directors-general of both the largest savings bank, the Central Savings and Commercial Bank ("Z") and the Vienna-based First Austrian Savings Bank—Dr Karl Vak and Dr Hans Haumer—have spoken out in favour of better access to the capital market, the revision of rules concerning mini*mum reserve requirements and* the setting of a limit on lending as a proportion of the bank's capital rather than its credit volume.

The profit squeeze, the repercussions from the Laenderbank case, political considerations and personal conflicts affecting the position of the various sectors as well as that of the largest financial institutions are bound to make competition for the small investors' money even fiercer. As Professor Gunther Tichy put it in a recent lecture, only a conscious farewell to illusions could be the starting point for overcoming the structural crisis of the banking sector and for embarking on the long overdue path to restructuring

# Gloomy outlook for debt tangle

**Comecon**

DAVID BUCHAN

THE PARLOUS financial condition of the Communist bloc is well known. The major crisis over Poland's bankruptcy and the lesser crisis over Romania's debt repayments have made East Europe's finances part of the daily diet of topics in the West. But the crisis is by no means confined to those two countries.

Total net hard currency indebtedness of the Soviet Union and its six Comecon partners in Eastern Europe rose from $72.4bn in 1980 to $80.7bn by the end of the last year. Most of the overall debt increase was due to a $6bn net increase in borrowing by the Soviet Union, intrinsically far the strongest economy in the East but where even larger gold, oil and diamond sales to the West have not been able to generate enough hard cash to pay for imports of vital grain and of Western equipment for natural gas development.

Western bankers have taken fright, to the extent that for the moment at least they have put a virtual blanket prohibition on any sizeable new loans to Comecon as a whole. "Redlining the Reds" is the new phrase, borrowed from American mortgage practice whereby bankers circle with a red pencil areas where they will not lend.

Relatively prosperous Hungary and East Germany—and Yugoslavia, which stands formally outside Comecon—have all tried in recent months to borrow on Western markets but failed to arouse any interest. Only Czechoslovakia and Bulgaria are regarded with any favour by Western lenders, ironically, perhaps, because neither of those countries seems to have any pressing need or interest in fresh Western money.

There are a few bankers who believe that some good money may have to be thrown after the bad, since without any new credits much of Eastern Europe's industry may grind to a halt and with it the capacity to repay old debt out of hard currency earnings. But such is the political climate after the martial law crackdown in Poland these bankers hardly dare put their heads over the parapet.

Credit is being used, or considered, as a political weapon on two particular fronts. First, the Nato governments decided in January that they would not discuss rescheduling the $2.2bn of Poland's debt which they have guaranteed and which falls due for repayment this year until General Wojciech Jaruzelski, Poland's military ruler, lifts martial law, frees interned prisoners and resumes a political dialogue with Solidarity, the banned trade union, and the Church.

Unfortunately, there is no immediate sign that General Jaruzelski is ready to be pressured from outside to meet these political conditions. Unless the governments reschedule their debts, Western commercial banks are most unlikely to do so this year (the 1981 rescheduling of official debts was the precondition for the bankers to agree to do the same on Poland's 1981 private debt).

Without any rescheduling, then, Poland would be in effective default on its debts to the West. However, some hard liners in the Reagan Administration, notably Mr Caspar Weinberger, the Defence Secretary, have wanted to take this one step further and declare Poland in official default—in order to underline the bankruptcy of the Communist system. For the moment other voices have prevailed, on the ground that to declare Poland formally in default would give it and possibly other Comecon countries a perfect pretext to repudiate, or at least put a moratorium on, Western debt repayments.

Credit is being considered as a political weapon on another front. The Reagan Administration has now dropped its explicit opposition to West European involvement in the trans-Siberian gas pipeline but come up with the broader idea that the West should put a co-ordinated credit squeeze on the Soviet Union, with the general aim of giving Moscow a sharper choice between the conflicting military and civilian demands on its economy.

Whether W. Europe will go along with this is a highly moot point, but Washington will be making a push at next month's meeting of the Organisation for Economic Co-operation and Development to get countries to agree on a higher interest rate floor on export credits to the Soviet Union.

Politics aside, there is ample scope for gloom about the prospects for sorting out Comecon's

**Comecon's net debt to the West ($bn)**

| | 1980 | 1981 |
|---|---|---|
| Bulgaria | 3.2 | 2.3 |
| Czechoslovakia | 3.5 | 3.6 |
| East Germany | 9.6 | 11.3 |
| Hungary | 7.4 | 7.8 |
| Poland | 22.1 | 22.4 |
| Romania | 9.1 | 9.6 |
| Soviet Union | 13.5 | 19.5 |
| Comecon banks | 4.0 | 4.2 |
| Total | 72.4 | 80.7 |

Source: United Nations Economic Commission for Europe.

Western debt tangle. The most acute problem is of course faced by Poland, which faces a worse situation this year than *even in 1981. The arithmetic* is dire. Even if Poland were to be able to reschedule 1982 debt, postponing repayment of principal to the late 1980s, it would still owe nearly $3bn in interest this year.

The country will probably run a hard currency surplus this year, mainly thanks to revived coal production but on the most optimistic assumption this is unlikely to exceed $1bn. The gap can only be bridged by new hard currency loans by either the West or the Soviet Union. For different reasons, neither is likely to fork up.

So the real prospect is that Poland would fall even further behind on interest on 1982 rescheduled debt than it did on 1981 debt. It was three months into 1982 before Poland managed to scarpe together enough to pay of 1981 interest. It can thus be argued that rescheduling in Poland's case only puts default off to some later but inevitable date.

Romania's problems are less severe than Poland's. Its current payments crisis is more the result of mismanagement—over much reliance on short-term finance with maturities heavily bunched in late 1981 and 1982—rather than of the weight of its overall debt, which at around $10bn is much smaller than Poland's burden of $22.4bn (excluding hard currency owed to fellow Socialist countries). But the Ceausescu government in Romania lost valuable time and Western goodwill by refusing, for several months after it started to slip behind on payments last summer, to acknowledge it had a real problem.

Finally, at the turn of the year Romania started to make a cleaner breast of its finances and out of Romania's negotia*tions with a lead group of nine* big Western banks, with the International Monetary Fund assisting from the wings, is now likely to emerge an agreement later this year to reschedule nearly $3bn. Romania has yet to settle debt disputes with a number of Western companies, which have been clamouring for quicker repayment than the banks. It also has a number of basic problems — neglected agriculture, over-ambitious industrialisation, money-draining petrochemicals —which must be tackled before it can be considered a decent credit risk again.

Romania, the political maverick inside Comecon, is the one East European country which gets no real Soviet help. But others do, mainly in the *form of preferential* trade treatment. East Europe usually gets relatively cheap Soviet oil and raw materials and sells relatively expensive finished products to the Soviet Union.

Bulgaria, for instance—the one Comecon country to have reduced its hard currency debt between 1981 and 1982 (see table)—is reported to have done so by reselling cheap Soviet oil on the world market.

This is the external burden the Soviet Union bears, the price of sustaining its empire. But internally it is also wrestling with severe problems of its own, principally the need for continued large grain imports as the result of three successive poor harvests and *the depressed world prices* for such Soviet export staples as gold, diamonds, lumber and oil. These factors coupled with the Soviets own increase in borrowing have reduced the credibility in Western eyes of the Soviets' own increase in borrower or guarantor of last resort, for Eastern Europe.

As a whole Comecon now spends a third of export earnings servicing Western debts and that ratio may well rise in coming years. But like the *curate's egg*, Comecon is good in parts. A credit freeze if applied uniformly to the region may have the counter-productive effect of driving down economies like that of Hungary which deserve to succeed.

# Bigger role recommended in North Sea financing

**SHAREHOLDERS AND CONTROL**

**Bank shareholders in Norway are at the mercy of political thinking. The present Conservative Government has restored to them the control taken away by the previous Labour administration. The banks themselves are hoping the move presages a more liberal economic regime.**

EARLIER THIS year shareholders of Norway's commercial banks recovered effective control of the banks they own—control which they lost in 1977 as a result of legislation enacted by the previous Labour government. In March the minority Conservative government which came to power last autumn secured Storting (Parliament) approval for a change in Labour's Bank Democracy Law. The change puts shareholders in a majority (eight out of fifteen) on the banks' representative councils which elect bank boards. The councils will continue to include employee representatives (four) and some public appointees (three) to provide an "outsider's viewpoint" in council discussions. But the change reverses the proportions of seats they hold. Previously public appointees had eight, shareholders four and employees only three.

This reform of a controversial labour law has been warmly welcomed by the banks. But they are waiting impatiently, and with steadily diminishing hope, for reform in an area which is actually far more vital to them—the government's expansionary fiscal policies. Because of the inflationary pressure they generate these policies force the authorities to adopt tight credit restrictions which hit bank earnings.

As in previous years this spring's crop of annual reports by the leading commercial banks showed a poor rate of return in relation to total capital employed. For the largest and most successful of them, Den norske Creditbank (DNC), it was only 1.38 per cent (compared with 1.15 per cent in 1980, described by DNC managing director Leif Terje Loeddesoel as "a very weak year." The second of the Big Three, Christiania Bank, achieved only 1 per cent (down from 1.04 per cent in 1980) and the third, Bergen Bank, reported 0.88 per cent (down from 1.07 per cent). Mr Loeddesoel, whose bank did best, said he was not satisfied with last year's results. Earnings as a proportion of total capital employed should have been between 1.5 per cent and 2 per cent, he declared.

Commenting on Bergen Bank's 1981 results, managing director Finn B. Henriksen said government credit policy was partly to blame for the bank's difficulties. "Regulation of the credit market in this country has never been so comprehensive as it is now and there has never been a greater gap between the measures adopted and the results achieved," he said. Henriksen, who is also chairman of the Norwegian Bankers' Association, added that he had not expected to see this happening under a Conservative government and hoped the situation would not last much longer.

Mr Henriksen's remarks were made early in March. Since then falling oil prices and rising investment costs offshore have led the government almost to halve its estimates of petroleum revenue over the coming four years. This is a development that will make it harder than ever for the government to balance income and expenditure—particularly if it is to keep Conservative election promises about lightening the burden of direct taxation.

**Norway**

FAY GJESTER

Without a change in fiscal policies, however, there can be no significant loosening of the credit market straitjacket. Addressing the annual meeting of the Bankers' Association last week Mr Henriksen said the time had come to tackle this underlying problem. Public sector expenditure would have to be actually cut—it would not be enough simply to slow the rate of growth. The political difficulties involved would be great and could probably only be surmounted if the necessary measure were presented in a series of packages, where disadvantages could be balanced by concessions. There would have to be co-operation across class and party lines, with solutions which served the national interest taking priority over those favouring special groups.

Norwegian banks had a key role to play in reviving the country's productivity and momentum for growth, Henriksen claimed. The banking sector had considerable growth potential in itself. Freed of restrictions, it could ensure that available funds were directed to the areas of the economy where they could yield the highest returns. The present system, which put unrealistic ceilings on lending activity and bank interest rates, simply led to the diversion of funds into the unregulated "grey" market, while making it hard for the banks to earn a profit.

Improving profitability is a very urgent task for Norway's banks. Without a reasonable profit record they cannot attract new equity capital—which they must do to keep up with the expansion in their liabilities as a result of inflation (currently running at about 12 per cent). Norwegian law requires the commercial banks to maintain equity at 6.5 per cent of liabilities. When profits are high enough this can be done by ploughing back part of them. In recent years, however, the only way of maintaining this ratio has been to expand share capital or to borrow, at home or abroad, so-called subordinated loan capital.

Now the authorities have moved to limit the practice of borrowing to maintain the required equity/liabilities ratio. Any bank with subordinated loan capital already exceeding thirty per cent of its share capital plus reserves will not be allowed to raise additional subordinated loan capital. Moreover, as a general rule raising of such capital abroad will no longer be permitted anyway because of the danger that Norwegian banks could become too dependent on foreigners.

These restrictions can be expected to increase the number of new share issues by Norwegian banks. At end-November last the total equity of Norway's commercial banks was NKr 5,254m, of which share capital and reserves accounted for NKr 4,173m and subordinated loan capital the rest—about a fifth. In other words, at that date permits had been granted for the borrowing abroad of a further $50m of subordinated loan capital.

Meanwhile, a group of experts has recommended that Norway's commercial banks—and other Norwegian credit institutions—should be allowed to play a larger role in financing offshore oil and gas investment. The group, which includes representatives of the Finance Ministry, the Bank of Norway, and the savings and commercial banks, proposes introducing a new system of kroner loans to the oil sector — to be kept separate from the rest of the Norwegian credit market.

To date the oil companies have largely financed their activities by borrowing abroad (Statoil, the Norwegian state oil company, has met some of its capital needs from direct state allocations). In future, says the working group, the companies should be offered the option of borrowing some of the money they need in kroner from Norwegian institutions.

Such kroner loans to "offshore" customers would not increase liquidity on the domestic market and could thus be exempted from the present curbs on bank lending. In fact, because they would reduce the amount of money available for lending on the domestic market they would actually lessen the need for high primary reserve requirements and other restrictive measures such as the obligation to invest in bearer bonds a proportion of any increase in a bank's assets.

The proposed kroner loans would also be unfettered by government ceilings on interest rates (designed to hold down domestic cost levels). The group believes that it would be up to the oil companies and the lenders to fix the terms of these loans and to decide how they should be organised — as syndicated loans, bearer bond issues or whatever. This means that the oil/kroner loans would probably be somewhat dearer than other kroner loans — how much dearer would partly depend on the oil companies' interest in this new source of finance. In any case the higher interest rates which the banks could charge would make a welcome contribution to bank profits. It remains to be seen, however, whether the government will accept the working group's proposals.

# Money easier but central bank keeps watchful eye

**FINLAND'S TOP COMMERCIAL BANKS**
**(1981—FM m)**

| | Total assets | Deposits | Own funds |
|---|---|---|---|
| Kansallis-Osake-Pankki | 27,256 | 14,806 | 1,282 |
| Union Bank of Finland | 27,232 | 13,895 | 1,098† |
| Postipankki | 18,034 | 10,528 | 264 |
| SKOPBANK | 7,722 | 660 | 333 |
| OKOBANK | 7,469 | 427 | 269 |
| Bank of Helsinki | 4,974 | 2,850 | 378 |

† Share capital will be raised this year through a rights issue by not less than FM 340m and not more than FM 440m.
Source: The Finnish Bankers' Association.

AFTER TWO good years, the Finnish economy slid slowly but inexorably into recession in 1981. Growth of Gross Domestic Product (GDP) was 7.6 per cent in 1979, 5 per cent in 1980 and only 0.5 per cent last year. It seems that 1982 will be a kind of intermediate year, with no dramatic changes in sight. At the end of 1981 the downswing was expected to be short and moderate but the most recent forecasts tend to be more pessimistic. The Ministry of Finance, however, still foresees 1.5 per cent growth in the curernt year.

The Ministry expects the price competitiveness of Finnish exports to weaken by 12 to 13 per cent altogether during 1980-82, mainly because of fluctuations in foreign exchange cross-rates. Ultimately, the recovery will depend on export demand; this in turn is closely linked with the revival of economic activity in Finland's main export market, Western Europe.

Despite the downswing the external balance of the Finnish economy has not been such a problem as it was in earlier recessions. The trade and current account deficits in 1981 were FM 1.3bn and 1.7bn respectively, approximately equal to £160m and £210m at the current exchange rate. The current account deficit was thus only about 0.8 per cent of GDP.

Net long-term foreign debt increased by FM 4.3bn last year to FM 32.33bn. The ratio of the debt to GDP stayed around the 15 per cent mark it has held for the past three years. The ratio of debt service charges to current account earnings was also unchanged at 10 per cent. Finland's international creditworthiness is still good.

For the banking community 1981 was a satisfactory year. Mr Ahti Karjalainen was appointed Governor of the Bank of Finland in succession to Mr Mauno Koivisto who was elected President of Finland. There is no reason to doubt that the Bank of Finland will continue under Mr Karjalainen to pursue its traditional watchdog role, using monetary policy to keep inflation down and prevent the money market from getting too easy.

In fact money is relatively easy at present. In 1981, with the recession imminent, the central bank cautiously relaxed monetary policy in order to help stimulate the economy. But caution is the watchword because of the need to avoid an inflationary impact. Bankers believe the central bank is currently pondering means that would enable it to tighten money again more sharply and quickly when the situation requires it. One of these could be more stringent terms for the cash reserve deposit scheme agreed between the central bank and the deposit banks in March 1979.

Under this scheme the banks can be obliged to make a cash reserve deposit with the Bank of Finland. The initial deposit is 0.4 per cent of the deposit stock at the end of a month, rising in steps of 0.4 per cent to 5 per cent at the most. The requirement peaked in March 1981 when the reserves placed in the central bank totalled FM 3.5bn, 4.6 per cent of the deposit stock.

As the recession worsened, the requirement was reduced to 3 per cent and in June the total of "frozen" deposits was FM 2.35bn. It is thought that the central bank may now wish to raise the maximum requirement to 8 per cent of the deposit inflow and call for larger monthly steps than the present 0.4 per cent.

With investment in the doldrums (−1.5 per cent in 1981, −2.5 per cent in the current year) and the households savings ratio still moving at a respectable 5.5 to 6 per cent, the banks' liquidity position is good. Commercial banks' debt to the central bank stood at FM 2.5bn at the end of 1981 compared with FM 4.5bn in 1980.

On top of this, there is the "grey market" which has lately become a subject of increasing debate. There is nothing illegal about it. Grey money is for the most part the temporary short-term surplus liquidity of companies and banks which they wish to place at a better yield than the fixed bank interest rates offer.

"No one knows how much of this short-term financing is floating about," says Mr Gustav

**Finland**

LANCE KEYWORTH

Mattson, director of the Bank of Helsinki "but some estimates put it at as high as FM 6bn compared with FM 4bn on average for the call money market on which the rates are fixed by the Bank of Finland."

The banks are therefore considering ways of regularising this market. One idea is to try something along the lines applied in Sweden. This would mean special corporate deposit accounts in the commercial banks for which the interest rates would be freely fixed and/or certificates of deposit which could be freely traded.

Interest rates are low in Finland—for political reasons. Bankers are pressing for an increase but are unlikely to get it. Mr Seppo Konttinen, president of Okobank, says: "Interest charged on credits is low both in nominal and real terms. Borrowers have not had to pay any real interest on domestic loans since 1979." Rates are pegged to the central bank base (discount) rate, which has been 9.25 per cent since 1980. The highest lending rate is 12.5 per cent.

The grey market is one area in which the commercial banks expect competition from the foreign banks now establishing in Finland. America's Citibank has already opened for trading, and its compatriot Chase Manhattan will be opening its doors in June. Indosuez will probably start in the autumn.

Another area is the foreign exchange market. This has been opened up perceptibly in the past 12 months or so. Forex deals at the rate fixed by the central bank daily can now be limited to FM 200,000. Above that the rate can be fixed by the banks according to the market.

In 1982 the spreads for purchases and deals were halved by the Bank of Finland, increasing the competitiveness of Finnish banks. The central bank will still intervene in spot deals but will no longer enter the forward market regularly except for rouble transactions, for which it still provides banks with forward cover for up to 12 months.

Meanwhile, Finnish banks continue to expand their international business. In just over 20 years they have taken shares in 15 consortium banks in Europe, the U.S. and Singapore. "We go to the financial centres," says a commercial banker, "and also to areas important for Finnish trade. South-East Asia is the most recent." A good example of the service offered to Finnish traders is the recent opening of a special forest industry department in Union Bank of Finland's consortium bank, Scandinavian Bank in London.

# Cash ratios raised to adjust interest rates

## Sweden

WILLIAM DULLFORCE

THE RIKSBANK (Central Bank) lowered its discount rate from 11 to 10 per cent in March in order, Governor Lars Wohlin said, to help stimulate a recovery in domestic investment. The move, coming at a time when international interest rates had only tentatively started to move downwards, was regarded as bold. Attention since has concentrated on the Riksbank's efforts to reconcile the stimulus to industrial investment with the need to keep up short-term interest rates and maintain an anti-inflationary Krona rate.

The background to this Riksbank exercise has been continuing concern about the imbalances in the Swedish economy, as evidenced in the intractable budget deficit and the current account. To this must be added the commercial banks' unremitting agitation for a looser system of monetary control.

Mr Wohlin has not been unsympathetic to the banks' attitude but the dialogue between the Riksbank and the banks has still to result in tangible changes.

When the Riksbank lowered its discount rate—for the second time in six months—on March 12, it authorised the banks to reduce from 15 to 14 per cent the highest permitted lending rate. However, it also indicated that the banks should cut the interest they pay on deposits by only 0.5 of a percentage point.

The banks, it could be said, should have been able to sustain this squeeze on their margins after the strong profit recovery they experienced last year and the higher returns they were earning on the new government paper they have been obliged to take up as their contribution to financing the budget deficit. But the squeeze was not popular.

Moreover, the Riksbank retained at 14 per cent the penalty rate it charges the banks for borrowing above a fixed amount. By this means it planned to keep up money market interest rates and reduce the possibility of a currency outflow which could bleed the reserves and weaken the Krona.

The audacity of the cut in the discount rate lay partly in the fact that it came quickly after the staunching of a currency outflow which had totalled nearly SKr 5bn (£470m) during January and February. Initially, the Riksbank's gamble appeared to pay off. The outflow during the first three weeks of March was no more than SKr 325m.

In the beginning of April, anticipating an increase in the money supply from the budget deficit and the repayment of some state loans, the Riksbank raised the cash ratios (the amounts the banks are required to hold with the Central Bank) from 2 to 4 per cent. The banks are also subjected to liquidity reserve requirements, which in the case of the big commercial banks are approaching the 50 per cent limit allowed by law.

The Riksbank has thus been using its array of monetary instruments to tread a narrow path between, on the one hand, the need to adjust Swedish interest rates to international rates and keep pressure off the Krona and, on the other, to provide some incentive for a renewal in Swedish industrial production and exports by easing domestic monetary policy.

The Government's fiscal policy, outlined in its finance plan for 1982, aims at holding down domestic consumption and trying to curb public spending, in order to smooth the way for the recovery in exports and industrial output. It tried to set this going by the devaluation of the Krona in September.

Governor Wohlin has warned in public speeches against combining too tough a monetary policy with the tighter fiscal policy. He argues that monetary shackles would hamper the revival in industrial investment that the Government is aiming for. The Riksbank has so far this year allowed the money supply to grow rather faster than the dampened inflation rate. However, it has retained its controls and has asked the Government to renew for a third year its right to regulate interest rates.

While the Riksbank aims at a carefully controlled reflation of industry, private bankers argue that the minority anti-Socialist government's goals can be better promoted by easing controls on banking and giving greater room for market forces. Bankers are disappointed that so little has been done since the anti-Socialist parties took power in 1976 to implement assurances that banking regulations would be liberalised. With the Social Democrats in a strong position to return to office after the General Election next September the opportunity may have been lost.

In their foreign operations the banks have made big advances in the past six years. They have, for instance, been encouraged to borrow abroad in order to refinance lending to Swedish customers, and last year about two-thirds of such lending (outside the bank's compulsory placements) was financed in this way. On the domestic market, however, bankers complain that controls on their operations have produced a swelling "grey market" in financial transactions.

The discussion between the bank and the Riksbank about two liberalising changes, which started last year, has so far not borne fruit. The changes mooted were to replace the present liquidity reserve requirements by a "marginal liquidity" system and to introduce bond investment funds managed by the banks.

The first suggestion has been baulked. Mr Sven Wallgren, Director-General of the Bank Inspectorate, has been asked to study and report on the second. The idea is that the banks would sell to the public shares in funds holding state bonds. This, it is argued, would make it easier for the Government to cover the budget deficit by motivating the banks to sell Government paper. At the same time it would also ease the burden of the compulsory purchase of state bonds, to which the banks are at present subjected.

The Riksbank, in fact, showed willingness last November when it allowed banks to reduce their own purchases of state bonds, by authorising them to deduct a proportion of a new Government savings bonds issue they sold to the public from the amount of state bonds they would normally be obliged to buy. It is taking time, however, to get the bonds fund allocated.

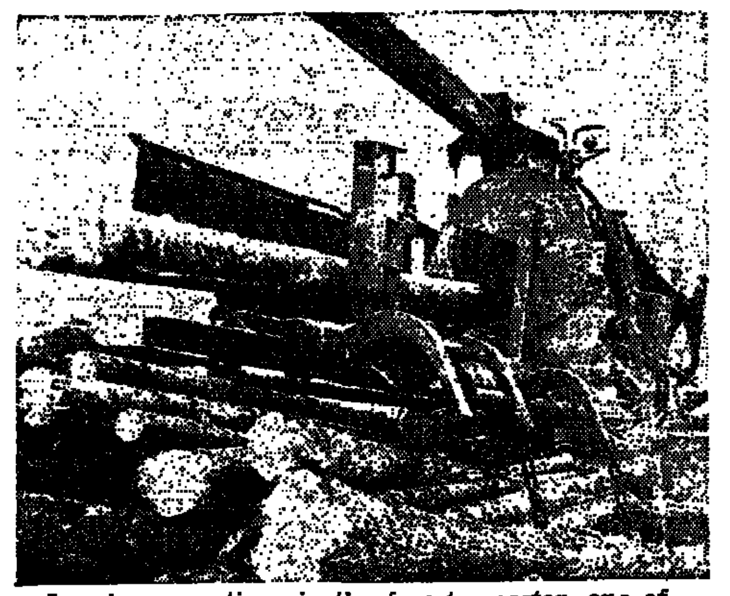
The Government budget deficit and the current account deficit — SKr 15.8bn last year, SKr 14bn forecast this year—remain the dominating short-term factors on Swedish banking. In 1981 the State was responsible for about half the total net borrowing in the country and for about 70 per cent of borrowing on the bond market. This year with a state borrowing requirement of around SKr 80bn, or close to 13 per cent of GDP, the crowding out is likely to be even stronger.

Argument continues over criticism, voiced by Industry Minister Nils Aasling among others, that the banks pursue too cautious a policy in lending to industry and are not prepared to take risks. As the Government cuts back its financial backing for companies which run into trouble, the banks are becoming more exposed, but the credit losses showed in their annual accounts for 1981 were modest.

The bankers retort that freeing interest rates would make it easier for them to charge premium rates to high risk concerns. It has also been suggested that regulations be changed to allow them to offer more loans not secured in fixed assets.

Despite the controversy over controls the Swedish banking scene is far from stagnant. The money market has come alive since the introduction of bank certificates two years ago and in February Svenska Handelsbanken introduced certificates of deposit which differ from the bank certificates only in carrying variable interest rates. The bank sold more than SKr 1.5bn of its certificates in the first two weeks.

The banks can scarcely complain about earnings in 1981. Nearly all reported substantial profit growth, with Skandinaviska Enskilda Banken notching up a 63 per cent increase. However, pride of place perhaps should go to Skanska Bank, the provincial bank for southern Sweden, which achieved a return after tax of 23.7 per cent on equity, the best result ever recorded by a Swedish bank.



*Logging operations in the forestry sector, one of Sweden's leading resource industries*

# A substantial increase in earnings

## Denmark

HILARY BARNES

THE DANISH business community has good reason to be thankful in these difficult days for the prudent legislators who decided that Danish commercial banks and savings banks must maintain a ratio of equity capital to deposits and guarantees of eight per cent minimum, which makes the Danish banks among the most soundly based in the world. Consequently, although the banks have had to bear very great losses on bad debts over the past two years, there have been no serious repercussions.

The exception is Henriques Bank, a small institution with a special significance. The bank was founded in 1972 by the Henriques stockbroking firm, a member of the banking consortium which arranges loans abroad for the Kingdom of Denmark.

When Henriques Bank was threatened with liquidation the other three members of the consortium—Copenhagen Handelsbank, Privatbanken and Danske Bank—came to the rescue, putting up DKr 36m in new share capital after the bank's original share capital was written down to five per cent or DKr 1.1m. The collapse had an added international dimension in that Philadelphia National Bank had a 10 per cent shareholding in the bank.

The story is a cautionary tale of a bank which was founded in the optimism of pre-oil crisis days and on the eve of Denmark's membership of the EEC. Almost immediately it faced a dramatically changed world and never managed to build up the reserves necessary to act as a buffer against sudden and substantial losses.

Within a matter of a few weeks the rising value of the Swiss franc against the Danish krone, declining values of paper held against security in property and the burden of a building project which the bank had to take over from a customer overwhelmed it.

The three big banks took over Henriques Bank—which will continue as an independent entity under its old name—to save the international reputation of Danish banking.

The stockbroking firm, founded in 1801, will remain a member of the loan consortium, although it is an anachronistic member. It owes its place to its historic role as adviser to the Danish Government and it has kept its place even though it has never grown into a significant financial institution while other much larger banks have been kept out.

It is characteristic that Henriques' losses were in the building and property sector, both suffering from a severe recession brought on by effective long-term interest rates of about 21 per cent, which after inflation gives a real rate of interest of about 10 per cent. Building, agriculture and vehicle dealers ( the latters' problem is not so much interest rates as high vehicle taxes) are the three areas which have suffered most heavily in the crisis.

Business losses have risen dramatically, as reflected in the accounts of the banks and savings banks. The central bank estimated in its February quarterly bulletin that loss provisions have risen from 11 per cent, or DKr 400m, of profits before taxes and loss provisions in 1977 to 45 per cent, or DKr 3.9bn in 1981. Loss provisions of DKr 6bn in 1980 and 1981 together were substantially higher than the aid provided to the private enterprise sector through the budget in the same period, the bank noted.

What the banks have lost on the private sector, however, they have recouped on the Government sector. For many of the largest banks loss provisions have been of almost the same order as operating profits (before depreciation) and the bottom line figure has only come out in black because of substantial gains in the value of portfolios, which under Danish accounting practice are entered into the profit and loss account as the change in value between the final days of the respective accounting years.

With a massive budget deficit the banks have been heavy buyers of government paper, most of which is short and medium-term and under a regime of rising interest rates has therefore risen rapidly in price as maturity approaches. In addition, with real interest rates of 10 per cent the banks' investment incomes arising from purchases of government paper have risen rapidly.

The other area where the banks have increased their earnings substantially is in international business. The larger banks earned from a fifth to a third of their 1981 profits from international business which has expanded rapidly over the past few years. In addition to the participation in the Nordic consortium banks operating from Zurich, Geneva, Paris, London and New York, the larger banks all have wholly-owned subsidiaries in Luxembourg.

Privatbanken has adopted its own strategy by setting up a wholly-owned subsidiary in London, Privatbanken Ltd, which made a handsome DKr 17m profit last year, and a branch office in New York. Several other middle-ranking banks have set up abroad in partnership with other Nordic and foreign banks.

Prospects for 1982 are not rosy. Business condition in Denmark remain extremely difficult and substantial provisions against losses will have to be made again this year—though they should be somewhat lower than in 1981.

The high and rising budget deficit and the continued substantial deficit on the current balance of payments ensure that interest rates will remain high, and if private sector capital imports do not pick up this year there is a real possibility that the central bank will be forced again to increase the discount rate—now 11 per cent.

The general theme of the banks' annual reports is that operating earnings will this year be more or less in line with last year's. Barring unfavourable year-end portfolio adjustments this means that net earnings will also remain stable or perhaps improve slightly.

Part I closes with reviews of Spain and Portugal, heading for EEC membership, and of Greece, the latest addition to the Community

# Public confidence retained despite wave of failures

WHAT STARTED out in 1978 as the difficulties of a few badly or fraudulently managed Spanish banks has extended itself into a serious and costly banking crisis. In relation to the size of the Spanish banking system with total liabilities of around $29bn the four-year-old crisis has probably been greater than that of Britain's fringe banks.

The banking authorities reckon that bank failures have affected around 4 per cent of total deposits, with net losses so far of some $600m. Given the scale of the crisis, with at least 20 banks directly affected, the extent to which the banking system has managed to contain its impact and retain public confidence is greatly to its credit.

The crisis has gone through several phases but as a general rule the causes have been broadly the same. Lax banking control coupled with a liberalisation of the norms for establishing banks in the early 1970s permitted a group of bankers *to emerge who had little conception of how to operate when* the recession began to be felt in 1977.

Incompetent management was compounded by over-rapid expansion financed expensively on the inter-bank market or achieved through offering extra interest under the table. To these ingredients for disaster were added instances of bank shares bought through "shell" companies on behalf of directors and financed with overvalued assets or direct investments in falsely valued property.

The first banks to collapse were all small. On the whole the more recent failures have tended to be larger entities who managed to spin out their attempts at survival. Back in 1978 *not even the bank of Spain* envisaged such a protracted crisis, which has persisted in large measure because the economy has continued deep in recession far longer than anticipated.

Banks which might have survived as a result of an upswing in the domestic economy — especially the case with the industrial banks with large portfolio stakes and loans in recession-hit industries — have been caught by an obstinate refusal of the growth rate to rise above 1.5 per cent. Alongside this, all costs have continually soared.

The most recent instance of a bank in difficulties concerned Bankunion, Spain's second biggest industrial bank and the 13th largest private bank, with total deposits of $1.3bn. Bankunion had a portfolio of 120 companies and found itself saddled with a small loss-making commercial bank, Gredos (whose name was changed to Ahorrobank) and over $200m directly and indirectly tied up in Spanish motorway investments.

For the past three years it has been struggling, seeking to diversify quickly into commercial banking. It was increasingly dragged down, however, by its heavy investment in toll motorways which, though a highly profitable long-term asset, produced small short-term returns. Thus even though Bankunion recorded a bookkeeping profit in 1981 of $9m, the rescue operation mounted in April required *funds of over $400m*. Bankunion has now been taken over by Banco Hispano Americano, Spain's third largest bank.

This operation was carried out with the assistance of the Deposit Guarantee Fund—the body jointly financed by the Bank of Spain and the banking community, who contribute on the basis of one per 1,000 of their peseta deposits.

Because Bankunion's problems were well known in advance the authorities were able to tackle the rescue of Bankunion calmly—and perhaps just as important avoid a takeover by the Deposit Guarantee Fund itself, which would have proved far more costly. Indeed, the authorities would far prefer it if the Fund merely acted as a source of soft financial assistance but all too often the Fund has found itself assuming direct responsibility.

One of the principal difficulties in the Bankunion case was gathering together from a host of small shareholders a sufficient holding to attract a potential purchaser. As it is Hispano was only able to get an initial block of 48 per cent.

It is to be hoped that the saga of Bankunion marks the beginning of the end of the crisis—or at least the solution of the bank whose failure could have caused the most damage to the banking system. There are still over 50 of the 130 commercial and industrial banks in the country (the figure includes the 30 foreign banks) which cannot pay dividends. Moreover, there are few outside the circle of the Big Seven commercial banks that can comply fully with Bank of Spain regulations on making provisions for loan losses and doubtful debts. The Bank of Spain has explicitly acknowledged this by allowing the banks progressive compliance with the norms, with 1986 as a deadline.

According to the Bank of Spain, there was a marked slowdown in the increases in provisions for bad and doubtful debts in 1981. Last year this provision rose only 11 per cent to Pts 104bn against increases of 43 per cent and 35 per cent respectively in the two previous years. This is because the big banks have been the ones since 1978 increasing their provisions in very substantial quantities and they are now satisfied that they have adequate risk cover, *averaging close to 1.5 per cent* of total risk.

**Spain**

ROBERT GRAHAM

Provision for bad and doubtful debts has been an important drain on profitability but this has been partially offset by careful use of tax reliefs in this respect. Furthermore, the better managed banks have been able to take advantage of high interest rates and continued wide margins. Thus profits have remained healthy. Among the Big Seven banks net profits for 1981 rose on average over 25 per cent; this was after they had been able to take advantage of a relaxation in the 1945 law that held dividend payouts to 6 per cent.

The Big Seven banks continue to dominate the banking system. In order of deposit size they are: Banesto, Central, Hispano, Bilbao, Vizcaya, Santander and Popular. If their affiliates are included they account for nearly two-thirds of commercial bank business.

Yet although this dominance continues, it is equally important to stress that the number of banks operating has not shown a noticeable contraction. Indeed, with the advent since 1979 of the foreign banks under a new decree the overall number has increased. The small and medium-sized banks have managed to retain their identities and even raise their share of the market—though since many of these are now connected with the Big Seven through direct equity stakes the real share of the market is increasingly with the latter.

The fact that the big banks are unwilling to merge and absorb these small banks underlines the importance of the belief that a regional or purely local identity still counts. How much longer this belief will persist remains to be seen, since pressures on costs—especially staff overheads—is bound to raise the need to rationalise. Spain is very heavily branched: only in Belgium does Europe have a higher ratio of branches per head of population.

There is now much more *competition for business* and banks are beginning to be highly image-conscious. At the same time the traditional distinction between industrial and commercial banks is being very rapidly eroded. The takeover of Bankunion by Hispano leaves Urquijo as the last independent bank classified as an industrial bank — and Urquijo *no longer sees itself* as an industrial bank but rather as a merchant bank also offering a range of services that includes commercial banking. All the other big banks have their own industrial/investment and merchant arms.

As for the foreign banks, it now seems that the authorities will place an informal curb on further admissions. They feel that with 30 major international names now permitted to operate the total is sufficient for the *size of the Spanish economy*. The foreign banks are also unlikely to be allowed to buy up any more local banks, except where no local offer is forthcoming for an ailing institution. The purchase by Barclays of Valladolid and by BNP of Lopez Quesada last year were probably, in retrospect, exceptions.

*Only a limited number of* foreign banks are interested in being involved on the retail side in Spain and the Spanish banks themselves are reluctant to let foreign banks are interest in penetration. The foreign banks for their part appear content, having worked their way round the restrictions on peseta dealings, and are turning in good profits.

# Still waiting for promised review of constitution

DEFINITION OF Portugal's banking system will have to wait. The much-heralded April review of the 1976 constitution—*with its economic restrictions*—is beginning to look more like an autumn affair.

When it finally happens the review and mild de-socialisation of the language of the constitution will not enter into the specifics of renewed access for private capital to Portuguese banking and insurance. That will be left to ordinary legislation, *which could take many* months.

Thus the foreign banking community has another long wait ahead, figuratively pacing around the visitors' room until the legislature delivers itself of a new basic law for the Portuguese economy.

In between the bouts of pacing, of course, foreign banks can apply for permission to open representative offices—as launching pads for full operations, the law allowing.

A number have already been authorised and begun to make their presence discreetly felt in financing operations. At the last count there were over a dozen, with a very strong U.S., British and French presence.

One of the most recent authorisations, for the Societe Bancaire de Paris, which operates at Oporto, outlet for 80 per cent of Portugal's exports, marks the return of a family driven out by the 1975 revolution.

The Espirito Santo's Bank was dragged into the nationalisation *net in March 1975 when* the Communists were out to gain control of the means of finance and production. Today the Banco Espirito Santo E Comercial de Lisboa has a palatial headquarters on Lisbon's main avenue — planned by the family years before they were stripped of their banking and holding company assets but only inaugurated in 1980. As half-owners of the Societe Bancaire de Paris the Espirito Santo's are back as a foreign bank in their own country.

The nationalised banks are, meanwhile, not doing too badly. Some, with the kind of competitive management prone to high blood pressure when the Government pontificates about modernisation, mechanisation and muscle, do their best to elbow their way through the bureaucracy that hampers them. They can take some consolation from a more dynamic presence abroad.

At home they are limited by lending ceilings, lengthy red tape delays on investment incentive decisions, periodic changes in their boards every three years, including numerous political appointees lacking in banking knowledge, and salary limits.

A senior (unrotated) director, who can earn no more than Esc 100,000 a month ($1,400)—the Portuguese maximum wage—is in real terms getting only three eighths of the income he enjoyed in 1973. Graduates of the banking system who spent some time in government after the revolution had to fight like demons to have the maximum wage lifted from Esc 30,000 in 1975 to Esc 40,000 in 1976, while it is now nominally higher, it has been eroded by mounting inflation.

To encourage bright young management trainees and staff as a whole the Banco Portugues do Atlantico has pioneered a staff incentive system, to obtain *which it had to do battle with*

**Portugal**

DIANA SMITH

the Finance Ministry. By a set of performance bonuses, fringe benefits like a car for senior *managers and greater wage* flexibility, the bank hopes to elicit conduct from its staff more resembling the private sector. Other banks have followed suit.

The Banco Portugues do Atlantico this year became the first Portuguese bank to join the lead managers of a syndicated Republic of Portugal loan ($300m) and to lend money to a Brazilian bank under that country's Resolution 63. A fifth of its funds are raised abroad.

It is closely followed by the Banco Totta 1 Acores, hotly opening agencies abroad—the latest in Macau. Indeed it is almost impossible nowadays to discuss Portuguese banking without looking at the one remaining colony, Macau, by all *accounts an oriental outpost on* the verge of a financial boom. Work is well advanced on preparation of an offshore finance statute there.

Nearly $200m is being spent on modernisation and expansion of the island's telecommunications system—until now pretty weak. The location and the tolerance of the People's Republic of China for the tiny island enclave, only 16 sq km in dimension, have already made it a thriving, export-import centre and a sturdy bridge into business with China.

Portuguese banks have been granted priority in opening new agencies there but 20 foreign banks are already queuing up for permission to operate. Macau considers itself eminently competitive with Hong Kong, only 45 minutes away by jet-foil. Overall operating costs are far lower and Portugal's sovereignty is not subject to a lease as is that of Britain's in Hong Kong.

Coming back to Portugal, it is not certain that all eight nationalised banks could survive liberalisation of the system.

There will be no de-nationalisation of these banks. They will simply be exposed to tough foreign competition. Chances are that two or three weaker vessels, troubled by overstaffing—as are all the nationalised banks—but with fewer ways of coping, and hampered by sluggish operations and low profits, could be swallowed up *by two or three of the stronger* institutions. The stronger banks see this not as good business but as necessary housekeeping.

What a strong bank can do with 2,000-3,000 staff inherited from a weak one is a dilemma. Under present labour laws redundancies or early retirement are hard to achieve. But these laws too are up for review some day.



# Concern about profit margins and scope for business

ONE DEFINITION of a purposeless operation in Greece these days could be an expedition in search of a happy banker.

All commercial banks, Greek and foreign, *are disturbed over* narrowing profit margins and what is identified as a serious crowding out of the private sector in banking operations. They are bracing themselves for *a confrontation with employee* unions over wage and other demands which they estimate will add between 33 and 35 per cent to labour costs.

They foresee a further increase in the mandatory deposits with the Bank of Greece, the central bank at interest rates below the cost of money to finance a public sector deficit that last year represented 15 per cent of Gross National Product (GNP). They see no possibility of any move towards a long-promised liberalisation of interest rates.

At the same time foreign *banks in Greece, which do 80* per cent of the shipping business out of the port of Piraeus, have a special problem over a Bill which, if enacted as drafted, could lead them to change status to simple representation offices.

Balanced on a razor's edge of unusual sharpness, bankers have adopted an attitude of *public silence—and it is always* a bad sign in Greece when the complaining stops.

The basic problem is one of margins. Tight credit policy, ostensibly linked with a Government *desire to bring inflation* down this year to a modest 20 per cent but in fact dictated by the public sector deficit, led in 1981 to an increase of between 54 and 56 per cent of the proportion of bank deposits tied down in mandatory placements in Treasury bills and other reserves, for the most part at 13 per cent.

*As a result of a complex* system of compulsory reserves in part offset by releases depending on the type of loan, an estimated further 10 per cent of reserves are tied down at zero interest. One banker observed that with the cost of money at about 18.75 per cent, 1 per cent of average income from interest diverted to support a government export trade scheme and a further one per cent set aside for questionable debts, the profit margins were brought down to such levels that banks were living *on the income from fees*, services, letters of guarantee and return on capital.

The situation has been *worsened this year by a range* of new and increased taxes. Turnover tax has been increased from 9.2 per cent to 10.4 per cent and stamp duty from 1.2 per cent to 3.6 per cent. *There is to be a compul*sory revaluation of fixed assets with the added value to be subject to tax, an annual property tax of 1.5 per cent on the current value after the assessment and a 4 per cent increase in dividend tax on income earned in 1981.

The customarily militant Panhellenic Federation of Bank Employee Unions (OTOE) has this year put forward demands going well beyond guidelines set in the

**Greece**

VICTOR WALKER

Government's incomes policy. Essentially, OTOE is asking for a new structure of unified salaries throughout the banking system based on the number of years worked in or out of banks, with an across the board increase matching the rise in the consumer price index.

Bankers observe that this could mean an office boy "after ten years in overalls" earning more than a newly appointed department manager.

The unions are also asking for the release of one full-time union *official for every 250* union members.

The federation decided to press for unified salaries despite strong opposition inside some of the individual bank unions, which argued that the scheme would operate against normal or merit promotions. If incomes were based solely on length of service, they [illegible], a young *man rising* qui[illegible] in a large bank, or an emp[illegible] of a small bank, could [illegible]d himself given added resp[illegible]ility without the fina[illegible] rewards he had a right [illegible] expect.

A [illegible]nking team is now costing [illegible] various hypotheses as a preliminary to opening negotiations. An agreement, when *reached, will be dackdated to* January and will apply to all banks, even though the foreign banks and the smaller Greek ones have formally reserved their positions.

*Looking* at the overall situation bankers see little hope that liberalisation of interest rates would be possible even if this *were still long-term Government* policy. In fact almost nothing has been heard on the subject since the elections of last October brought to power the Socialist Government of Dr Andreas Papandreou.

While bankers speak of 120 different interest rates set administratively, there are four basic maxima: 21.5 per cent on working capital and trade; 18.5 per cent on long-term fixed capital; 14.5 per cent on loans to small business; and 10 per cent for the export trade.

Bankers say a further reduction *of interest rates on time* deposits, already lowered once this year, may soon be necessary. At present these range from 20 per cent to 16 per cent depending on the amount of the *deposit. A 1 per cent drop* throughout the scale is thought possible, along with an increase from 3m to 10m drachmas in the deposit requirement for the maximum rate.

An entirely unexpected new problem for foreign banks has been raised by a Bill now before Parliament which unless amended as a result of pressure from banking and shipping interests would subject loans contracted in foreign currency to 2.4 per cent stamp tax. Such loans, which relate mainly to the shipping sector, have up to now been exempted from this duty, which had been applied only on drachma loans.

A banker in Piraeus said that the 2.4 per cent would be an unacceptably high additional *charge for shipping loans*, which normally run into millions of dollars and could neither be absorbed by the banks nor passed on to the customers. He forecast that banks would react by downgrading their operations to representative offices which would negotiate the loans in Greece but conclude the agreements abroad. This would deprive the state of taxes equal to close on 50 per cent of the loan spread and hazard the jobs of between 1,800 and 2,000 Greek staff now working for foreign banks in Greece.

This situation has arisen at a time when banks are already showing what is termed "remarkable understanding" of *the difficulties of Greek ship*owners in a depressed market. The total exposure of banks in Piraeus to Greek shipowners is put at between $2bn and $2.5bn out of an overall world total to Greek owners of $6bn. Some 80 per cent of the Piraeus exposure is said to involve foreign banks.

*Rather than "pull the rug"* banks are understood to be quietly granting moratoria of one year and in some instances up to two years on loan servicing, or assisting in the restructuring of loans so as to avoid placing ships on auction at current market prices.

One banker predicted this situation could not continue much *beyond the end of the* year. If there were no market recovery by then, he said, there was a danger that small banks with little experience in shipping participating in consortia loans would put pressure on the agent banks that it would be hard to resist.

"Civilised" methods of reducing exposure, which a banker said he believed were being pursued quietly in back rooms, included the disposal of part of a fleet to spread the loans on the rest or bank-promoted substitutions of weak owners by stronger ones, since "large companies have no danger of going under."

Meanwhile the Government has submitted to Parliament a Bill abolishing the Currency Committee—*previously the* watchdog of Government economic policies—and shifting its functions to committees inside the Bank of Greece.

The idea is to give the Bank of Greece a greater degree of independence in the execution of Government policy.

The Bank of Greece intends to carry out a closer credit surveillance, including the examination of books of commercial banks, to make sure credit policy is adhered to, and to train staff more effectively as auditors of the banking system.

Although the *Government* is committed to "change" the central bank is understood to take the position that overnight liberalisation would be a disruptive shock to an economy that has adjusted over many years to the system of administered interest rates. It is expected, however, that the Government will seek to channel more financing resources to the countryside, in particular through loans for housing and to small-scale agricultural businesses.

One observer has described as "a major mental block" in the banking system the principle that the purpose of a loan was less important than the security of the collateral offered. In contrast to foreign banks in Greece, he said, Greek banks placed too little emphasis on training managers in project assessment.

MR REAGAN'S BUDGET

# It won't be so easy this time

By Reginald Dale and Anatole Kaletsky in Washington

PRESIDENT Ronald Reagan has never abandoned his belief that, in the 1980 election, the American people gave him a clear mandate to do a number of things that successive presidents had failed to do in the previous decade.

The themes are familiar by now: the rearming of America, balancing the budget and unleashing the country's economic potential by cutting taxes and government spending.

Last summer, partly by appealing to the people over the heads of the Congress for support for this philosophy, he scored the sensational tax and budget cutting victories that laid the foundations of his economic programme. In the past week, he has been trying to do the same again.

Five weeks of discussions aimed at reaching a bipartisan compromise on the fiscal 1983 budget had collapsed on Wednesday. Twenty-four hours later, on prime time television, he blamed the Democrats for the breakdown and once again appealed to grass roots Americans to let their elected representatives know how firmly they support Reaganomics.

But it has been clear for a long time that this time round it is going to be far less easy for the President. Despite this he has so far devised little in the way of new tactics. And his speeches have become so predictable that it is almost a waste of time to listen to them.

Meanwhile the political climate in this election year is very different from a year ago. Mr Reagan's standing in the opinion polls has plummeted even faster than that of President Jimmy Carter over the equivalent period of his term. The long awaited economic recovery remains as elusive as ever and in the face of high interest rates and high unemployment Mr Reagan has failed so far to stamp out the widespread image that he is pro-rich and *anti-poor, not to mention* anti-black.

The right-wing Southern Democrats, the so-called "boll weevils," on whom he relied for budget support in the House last year, *are not going to be* coaxed into repeating the process so smoothly this year.

In response, the President has launched a campaign insisting on the "fairness" of his economic policies, tried to counter distorted attacks by his critics with his own simple facts and figures (often subsequently attacked as wrong), presented himself as the man of compromise over the budget and branded the Democrats as the party of high taxes and high government spending.

He has officially thrown his *weight behind a constitutional* amendment, currently under consideration in Congress, making a balanced budget obligatory unless opposed by a two-thirds majority of both Houses.

In fact is it hard to avoid the impression that both sides in the end wanted the budget negotiations to fail. The Democrats did not want to be trapped by Mr Reagan into seeming to back unpopular policies, like cuts in social spending, in an election year. This they are convinced was the White House's main objective.

The gap between the two sides is a wide one. When the talks finally broke down the Democrats were pushing for new revenues of $165bn over the next three years to close the yawning budget deficit gap. Mr Reagan said he could go no further than $122bn and even that was excessive. Throughout he has insisted that he would not tamper with his three-year tax-cutting programme.

Even though both sides more or less agreed on what the size of the deficit should be—just over $100bn next year — they could not agree on how to get there. *The Democrats* wanted cuts in defence spending, the Republicans cuts in social programmes. The breakdown, the White House said, was due to a total "difference in philosophy."

The question now arises whether any budget can be salvaged from this wreckage at all. It is a vital question because without a new budget the federal deficit will be $182bn next year.

Mr Reagan's original February budget remains on the table but everybody, including the President, accepts that it would be rejected if put to a vote. The compromises offered by the President in the final hours of talks on Capitol Hill last week — including a $28bn cut in defence spending and $122bn of tax increases over three years—have been withdrawn. Similarly the Democrats have withdrawn their compromise proposals.


President Reagan (left) and House Speaker Tip O'Neill: war of wills between Congress and the White House.

**U.S. BUDGET DEFICIT FORECASTS**

(in $ billions)

| | 1983 | 1984 | 1985 |
|---|---|---|---|
| Reagan's February Budget proposal | − 91.5 | − 82.9 | − 71.9 |
| Revised April figures | −101.9 | − 93.8 | − 81.8 |
| Baseline deficit* | −182 | −216 | −233 |
| Reagan's final deficit reduction proposal† | 72-77 | 128-133 | 183-194 |
| Deficit after proposed reduction | −110/−105 | −88/−83 | −50/−38 |

* The deficit now forecast if no action were taken by the Administration.
† The reduction in the baseline deficit proposed by the White House last week in its final negotiating working paper.

Sources: White House and Office of Management and Budget

The Presiednt has in effect, abdicated his power to initiate economic policy, leaving it to be thrashed out by a partisan, politically-nervous Congress.

The House and Senate budget committees now have to devise fiscal plans to satisfy their own criteria of equity, political acceptability and economic sense. Because the two houses of the Legislature are dominated by opposing parties, their two budget committees are likely to produce very different packages.

With cuts in social security pensions now apparently ruled out of court because of their electoral explosiveness and with the President lobbying against major cuts in defence spending or alterations to his tax programme, the Republicans are in real confusion about where to turn for additional deficit reductions. "The Senate Republicans have plenty of plans—and each plan would get exactly one vote," says one congressional official.

The House budget committee, which has a Democratic majority, may find it easier to produce a coherent budget plan but it would be one that the President will inevitably oppose with all his political might. Now that any pretence of bipartisanship is gone, the Democrats will probably propose to rescind the 1983 tax cut, cut back defence spending to a real growth rate of 5 per cent instead of 10 per cent and allow for higher social spending.

Some Democrats contend that their deficit reduction programme should also include a demand for easier monetary policy, leading to lower interest rates. A one-point reduction in interest rates would take $20bn off the deficit.

If the hurdle of agreeing on any programmes at all is passed, each committee will present its recommendations for a vote on the floor of its house. In theory this should happen by May 15, but even in more propitious years this deadline has been missed by a few weeks.

*At this stage another round* of partisan horse-trading begins in order to turn the House and Senate budgets into a document which will be acceptable to both. This process of compromise is done by a "conference committee" of the two houses.

In the past agreement was usually reached by "splitting the difference." But if the two budget versions are fundamentally incompatible, the conference will be faced with the daunting task of splitting the difference between an apple and an orange.

When, and again if, the conference can strike a compromise, both houses *will again* vote on its report. If they assent, the first budget resolution is passed. This resolution, which is only advisory, provides the framework for 19 or more com*mittees in each house to write* legislation implementing the new tax and spending policies for the year ahead.

It is only when the work of all these committees is done *that* legally binding bills, authorising new taxes and expenditures, are ready to be put to the vote. This is the point at which the President can intervene most effectively if he is not prepared to accept Congress's economic plans.

Last year he did this by urging his supporters in Congress to put forward a single "Omnibus Reconciliation Bill," to cover all programmes, thereby turning what would normally have been a complicated series of political compromises into a single vote of confidence in Reaganomics. An alternative strategy for the President would be to veto any unacceptable tax or spending decisions which he cannot halt any other way.

The budget could get stuck at any of these or many other points which have been left out in this highly over-simplified account. So it is not surprising that even the most experienced congressional observers have no real idea of how U.S. fiscal policy will now unfold.

Partly because of this, President Reagan's opponents may short-circuit the budget process in a much clearer test of wills. Sometime within the next few months, and quite probably before the end of May, the Federal Government's debt is expected to hit the ceiling of $1.079bn, set by Congress last *year.*

This ceiling, which is legally binding, would normally be raised as a matter of course. This year, however, both Democrats and fiscally conservative Republicans see the debt ceiling as the best possible opportunity to confront the President with need for immediate measures to reduce deficits.

A resolution to raise the debt ceiling could include a rider repealing the 1983 tax cut or even a more complex set of tax and spending reforms. If he vetoed such a resolution, the President would be putting in jeopardy the whole operation of the Federal Government in a much more comprehensive way than his temporary closure of Federal offices last year.

In theory an impasse over the *debt ceiling Bill could, according* to some Democrats, even threaten the payment of interest on the National Debt. In practice, Congress would be extremely unlikely to go to the *extreme of* bankrupting the U.S. Government. It could, however, opt to increase the debt ceiling by small sums over short periods in order to keep the pressure up.

It is impossible to predict who would win in such a war of nerves. But what is almost certain is that the U.S. economy, and with it the world economy, would lose.

## Lombard

# Meanwhile here back at home...

BY SAMUEL BRITTAN

A BELIEF has been spreading that the Falklands crisis has obscured a major improvement in the British economy. Has it really? The answer is, up to a point. For there are two gloomy items which would certainly soon be in the headlines were not all eyes on the South Atlantic.

First, that very wobbly index, industrial production, *has not* been doing too well. It is not clear whether this has been due just to strikes and bad weather over the winter or whether the downward wobble has been genuine. But *the fall of over* 1 per cent in the index in the three months to February is likely to carry over into the real GDP for the first quarter of the year, which is liable—on first estimate at least—to drop.

More seriously, the headline unemployment figures which are at present not moving very much, will before long be affected by the annual exodus of school-leavers, and could reach a peak of 3¼m in, say, September.

The unmistakably good news has been on the inflation and financial fronts. In the six months up to March the Retail Price Index, excluding seasonal foodstuffs, rose at an annual rate of only 7½ per cent. Allowing for distortions and special influences, inflation is almost certainly already in single figures. Now that it is not being scrutinised so attentively, Sterling M3 is coming within the new target zone and the 1981-82 PSBR has undershot.

Interest rates have so far stood up well to the Falklands crisis. The three months interbank rate, at just over 13½ per cent, is scarcely higher than before the Argentine invasion of the islands. We will have a clue to how much official massaging there has been of sterling when the April reserve figures are published this week.

The main effect of the crisis has been to intensify the downward slippage of sterling against the dollar which has been going on throughout the year. The unannounced semi-target range of 88 to 92 for the trade weighted average has not been breached.

Simon and Coates in its always interesting monthly *Economics Analyst* states that the sterling-dollar rate is more important for inflation. On the basis of import invoicing and North Sea oil, it concludes that the dollar should have a 56 per cent weighting compared with 26.6 per cent in the official average index (which is mainly export based). There will, however, be no need to go into too deep a discussion of this argument, if the dollar were to fall back against the Continental currencies, against which it is very high and vulnerable. The sterling-dollar rate would then benefit from the backwash.

But to come back to the "*real*" *domestic economy*: the best evidence from industrial surveys and from the Central Statistical Office cyclical indicators suggests that output is gradually rising, despite the first-quarter wobble. This puts Britain ahead of the OECD, which has just reduced its 1982 gross forecast for the whole area to zero.

The corner has probably been turned in the labour market too. Unemployment—which is still rising slowly on an adjusted basis—is a lagging indicator. But vacancies, which follow the cycle more closely, have been fluctuating around 110,000 so far this year compared with a low point of 90,000 last year. Rather more important, the gross monthly inflow of new vacancies on to the register has risen from 140,000 to over 160,000. Both outflows and inflows from the unemployment register are up by 50,000, a normal sign of a cyclical recovery. This has all happened in the face of falling short-time and increased over*time which — without some* underlying recovery — would have held back the demand for new workers.

In itself these indicators are cause for relief rather than ex*citement. The economy has fal*len off Mount Everest and climbed up Box Hill. More fundamental is the change in investment behaviour compared with the last recession. Total *investment has fallen more; but* the drop is accounted for by housing and the public sector. Private investment actually increased slightly between 1979 and 1981. This is both encouraging and surprising in the light of sales and profits, and may also suggest that figures of unused capacity should not be taken entirely at their face value.

# Letters to the Editor

## Accomplishing large and difficult flotations

*From the Chairman, Accepting Houses Committee*

Sir,—It would be a pity, from the point of view of the majority who derive their sustenance from the private sector, if the advance towards privatisation of public sector industries were halted through misunderstanding of the principles involved.

The Public Accounts Committee, which has just reported on the denationalisation of British Aerospace, Cable and Wireless and Amersham International, stops short of condemning the officials of the Department of Industry and of the Treasury for the methods which they have used to achieve these objectives. The Committee fairly recognises that it is easy to be wise after the event. Nevertheless, it expresses vague dissatisfaction and suggests that something should be done in future cases without offering advice as to what this something should be.

The facts are that two blocks of BP shares and three nationalised industries were floated onto the market by the proven method of the owner, in this case the Government, offering shares for public subscription. In the three latter cases in question (but not in the others) the public response was such as to suggest that the offers were underpriced. The Committee finds cause for objection in both the apparent under-pricing and the fact that the five offers, producing £1,300m, were underwritten by the financial community at an aggregate cost to the public purse of £21.3m (inclusive of VAT).

Starting with the second point and ignoring VAT (which is always emotive and usefully increases indignation) the Committee was really suggesting that *Government should* act as its own underwriter and carry the risk of the shares not being bought in the public offer. The Committee failed to recognise that if this were done and if the public were, contrary to expectation, not to come forward with their applications the object of privatisation would not be achieved. The simple fact is that if an offeror underwrites his own offer and no-one takes up the offer, for instance because it is too highly priced, the self-underwriter ends up having sold nothing. But he will have wasted heavy advertising, legal and accountancy costs (which can be nearly as much as the underwriting commissions saved) not to speak of the political cost of egg on his face.

The Committee does not seem to have realised that if the Government arranges to have its offer underwritten by 500 members of the financial community the shares in question will at the very worst (a) be sold and (b) be distributed amongst initially 500 shareholders. Nor did it recognise that the very act of underwriting serves to encourage subscriptions from underwriters and gives confidence to the general public.

The three transactions which appear to have been underpriced were all handled by members of the Accepting Houses Committee, the trade association of the principal merchant banks of which I am chairman. It is quite clear from the evidence to the Public Accounts Committee that the instructions to the merchant bank advisers were to make proposals designed to *ensure* that the offers of shares resulted in "successes" rather than "failures."

In the language of the trade a "failure" is an issue which is less than fully taken up by the public to whom it is addressed so that a call has to be made on the underwriters; everything else is a "success."

Pricing a new issue correctly requires a fine skill but one which is rendered imprecise in the case of a public offer for sale by the sheer elapse of time between the fixing of the terms *and the* closing of the subscription lists. This interval is dictated by the need to advertise widely the prospectus and give the public time to make up their minds and mobilise their funds—and cannot be less than a week. A week is a long time in equity markets.

Pricing an issue under these circumstances so accurately that the offer is only just covered is rather like trying to land a helicopter on top of Ben Nevis in a high wind. It can be done but there is a large risk of undershoot or overshoot resulting in a forced landing many hundreds of feet from the target area.

It is *perfectly understandable* why the instructions to the merchant bankers were to plan for a "success" rather than for a "failure." Having myself been chairman of an important engineering company that was sold to the public at an over-price some years ago, I know exactly how demoralising it is to board and management to see the shares languish for many years at well below the issue price with the bulk of them still in the hands of the original underwriters; for one thing, recourse to the capital market for funds for the company is blocked until the sale is digested. *More important still* is the fact that if one major privatisation is seen to be a "failure," subsequent privatisations will be made that much more difficult and, to the taxpayer, costly.

The truth of the matter is that large and difficult flotations can only be accomplished if the imagination of the general investing public can be fired. In this the speculator plays an important role. Because of his intervention a series of "successful" issues will realise overall a much higher price for the vendors than a series of "*failures.*" The cost of overshoot is nowhere near as great as it appears. But overshoot it has to be.

I. J. Fraser.
*21, Moorfields, EC2.*

## Investing for pensions

*From the Managing Director, Godwins*

Sir,—Mr Patterson (April 26) oversimplifies the financial equation on contracting out by concentrating in isolation on the gap between the average yield from time to time on the fund's investments and the rate at which Guaranteed Minimum Pensions (GMP) liabilities are being revalued. Two refinements *must be introduced* which render inappropriate the generalisation of his conclusions.

The Government actuary assumes a gap of 1 per cent coupled with a yield of 9 per cent. The Government's additional risk margin reduces this gap to roughly ½ per cent at the same yield of 9 per cent. At higher yield levels however, the "break even" gap reduces and can even become negative. This is because the extra investment yield affects the equation through to the death of the pensioner whereas the extra revaluation of GMP affects the contracted-out *scheme's* liability only up to retirement age —the state revalues the GMP during payment.

A typically invested fund (say 60 per cent equities, 25 per cent gilts and 15 per cent property) will have achieved a yield of around 16 per cent per annum over the first four years of contracting out and the rates of revaluation for that period for a scheme which remains contracted out also average 16 per cent per annum —i.e. a "nil gap." However, the fruits of such an investment policy could be invested today to yield a guaranteed 14 per cent initial yield leaving in doubt only the reinvestment rate and the rate of GMP revaluation. Funds which do not follow this strategy expect to do better.

To "use up" the full 7 per cent rebate which has been enjoyed for that four year period the future gap between reinvestment and revaluation would have to be a negative 2 per cent. As long as a scheme can continue to obtain high initial yields it can afford to be pessimistic about the "reinvestment gap" and still break even —a *little less pessimism and it* can expect a profit. If initial rates fall significantly (say to under 10 per cent) then would be the time to begin to re-examine the position but not *before.*

A similar approach can be adopted to assess the revised rebate of 6¼ per cent with similar conclusions.

D. J. D. McLeish.
*Fleet House,*
*Victoria Road, Farnborough,*
*Hants.*

## Development in the regions

*From the Managing Director, Blay's Guides*

Sir,—In your regional development survey (April 27) Mr Moreton makes an interesting case for spending less money on regional assistance and more on retraining people into new skills. Such a policy, however, will only be successful if jobs requiring new skills are available locally when their training is complete. In other words, it should be part of a well planned industrial and employment strategy for the area.

One of the most *encouraging* features in recent years has been the success of regional organisations in attracting new businesses and jobs to their *own* areas, and the practical way in which so many individual towns and cities throughout the country are now tackling the same problems.

But some financial assistance for industry *must* be available to get results. Local initiatives, often started by councils and supported by local businesses can be far more effective in creating viable new jobs than anything else, but there is no substitute for even limited loans/grants for premises and job creation to get business started or to encourage others to come. I hope that the Govern*ment's review* of regional, retraining and employment policies will take this into account both in and outside the assisted areas.

Donald Black
Blay's Guides,
*Churchfield Road,*
*Chalfont St Peter, Bucks.*

# RECENT ISSUES

## EQUITIES

| Issue price p | Amount paid up | Latest Renunc. date | 1982 High | 1982 Low | Stock | Closing price p | + or − | Net Div. | Times Covered | Gross Yield | P.E. Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 140 | F.P. | 14/5 | 157 | 140 | AIM Group 10p | 157 | +4 | bd5.75 | 1.9 | 5.2 | 14.1 |
| 15 | F.P. | 15/4 | 29 | 19 | Cambrian & Gen.7½p | 29 | — | — | — | — | — |
| ‡105 | F.P. | 21/5 | 109 | 105 | ✱Cass Group 10p | 107 | — | ud2.5 | 2.6 | 3.3 | 15.4 |
| ‡260 | F.P. | 4/6 | 335 | 293 | ✱Cont. Microwave | 325 | +8 | b5.25 | 3.9 | 2.3 | 12.1 |
| 60 | F.P. | 28/5 | 63 | 61 | ✱DeBrett(Andre) 10p | 61 | | b2.5 | 2.1 | 5.9 | 11.5 |
| ‡102 | F.P. | — | 136 | 122 | Dew (George) | 126 | | g5.7 | 4.0 | 6.5 | 5.8 |
| ‡150 | F.P. | 28/5 | 146 | 140 | ✱Druck Hldgs | 146 | +2 | g2.3 | 2.5 | 2.3 | 25.3 |
| — | F.P. | — | 40 | 27 | Greenfriar Warrants | 38 | −2 | — | — | — | — |
| — | F.P. | — | 16 | 10 | ΔGr'p Inv Option Crts | 16 | — | — | — | — | — |
| ‡250 | F.P. | 14/5 | 250 | 245 | ✱Gio Technology | 248 | — | — | — | — | — |
| — | F.P. | — | 275 | 267 | ✱Jebsens Drilling | 265 | | b17.5 | 2.3 | 9.4 | 6.3 |
| ‡120 | F.P. | 7/5 | 134 | 122 | ✱Leisure Inds | 132 | | b5.0 | 2.5 | 5.0 | 8.5 |
| †† | F.P. | — | 30 | 30 | Osprey Assets | 30 | | F1.4 | — | 6.7 | — |
| ‡‡ | F.P. | — | 42½ | 39 | P. H. Industrials | 42½ | +1 | b2.5 | 1.8 | 11.8 | 6.7 |
| 136 | F.P. | 13/5 | 141 | 135 | Standard Secs | 136 | | b2.8 | 1.8 | 2.9 | 48.8 |
| ‡‡ | F.P. | — | 90 | 70 | Zambia Cons Cpr 10K | 70 | — | — | — | — | — |

## FIXED INTEREST STOCKS

| Issue price £ | Amount paid up | Latest Renunc. date | 1982 High | 1982 Low | Stock | Closing price £ | + or − |
|---|---|---|---|---|---|---|---|
| 100 | F.P. | 14/4 | 116 | 110 | Boddingtons Brew 9½% Cnv. Ln. 2000/05 | 110 | −2 |
| ¶100 | £10 | 24/6 | 10½ | 10½ | Bristol Water 9% Pref. | 10½ | — |
| ‡99.295 | £25 | 14/7 | 25 | 21½ | Cred. Foncier de France 14¾% Ln. 2007 | 25 | — |
| ¶100 | £10 | 1/7 | 11½ | 11½ | East Anglia Water 9% Red. Prf. 1987 | 11½ | — |
| ¶¶ | F.P. | — | 152 | 136 | First Nat. 12½pc Conv. Uns. Ln. 1997 | 136 | — |
| 100 | F.P. | 23/3 | 105 | 97 | Hunting Pet. 10% Cnv. Ln. 1997 | 102 | −3 |
| ‡99 | F.P. | 29/4 | 101¼ | 99¼ | Lee Valley 9½% Red. Prf. 1989 | 99½ | — |
| £100 | F.P. | — | 100⅛ | 99¾ | Nationwide Bdg. Soc. 14¼% (14/5/83) | 100⅛ | — |
| £100 | F.P. | — | 100⅛ | 99½ | Do. 14¼% (4/4/83) | 100 | — |
| £100 | F.P. | — | 100⅛ | 100 | Do. 14¼% (25/4/83) | 100⅛ | — |
| ‡107 | F.P. | 29/4 | 111 | 109⅛ | Queens Moat 10½% Cnv. '89-91 | 108 | — |
| ** | F.P. | 16/4 | 102¾ | 100 | Ropners 11½% Cum. Prf. | 102¾ | — |
| 98.53 | £20 | 20/6 | 25½ | 19¼ | Trans-Canada Pipelines 16½% Notes 1987 | 23 | −¼ |

## "RIGHTS" OFFERS

| Issue price p | Am'unt paid up | Latest Renunc. date ● | Latest Renunc. date ■ | 1982 High | 1982 Low | Stock | Closing price p | + or − |
|---|---|---|---|---|---|---|---|---|
| 10 | F.P. | 27/4 | 28/5 | 13¾ | 13 | Ansbacher (H.) 5p | 11½ | ...... |
| 170 | Nil | 13/5 | 24/6 | 30pm | 20pm | Bank Leumi (UK) £1 | 20pm | ...... |
| 125 | F.P. | 21/4 | 28/5 | 152 | 135 | Beazer (C. H.) 10p | 152 | ...... |
| A$1 | Nil | — | — | 16½pm | 3½pm | Bond Corp. | 5½pm | −4 |
| 30 | F.P. | 29/3 | 10/6 | 60 | 50 | First Castle 10p | 56 | ...... |
| 20 | F.P. | 30/4 | 28/5 | 86 | 42 | Fisher (A.) | 42 | −1 |
| 5 | Nil | 10/5 | 21/6 | 1pm | ½pm | Grovebell (5p) | ½pm | ...... |
| 500 | Nil | — | — | 90pm | 80pm | Hammerson Prop. | 80pm | ...... |
| 500 | Nil | — | — | 75pm | 65pm | Do. A. | 65pm | ...... |
| 160 | F.P. | 22/3 | 29/4 | 188 | 164 | Hunting Pet. Services | 186 | ...... |
| 120 | Nil | 7/5 | 4/6 | 34pm | 24pm | Lilley (F.J.C.) | 31pm | ...... |
| 145 | Nil | 12/5 | 7/6 | 42pm | 33pm | Low (Wm.) 20p | 33pm | −3 |
| 18 | Nil | — | — | 14pm | 4pm | North Kalgurl | 8pm | ...... |
| 6 | F.P. | 19/4 | 21/5 | 8 | 6½ | Platignum 5p | 7½ | ...... |
| 27 | F.P. | 29/4 | 27/5 | 28½ | 27½ | Queens Moat | 27 | ...... |
| 98 | F.P. | 16/4 | 4/6 | 104 | 99 | Riley Leisure | 103 | +1 |
| 170 | Nil | — | — | 52pm | 45pm | Steel Bros. | 50pm | ...... |
| 10 | F.P. | 24/3 | 23/4 | 12½ | 10½ | Sturla 10p | 10½ | −½ |
| 133 | Nil | 10/5 | 10/6 | 18pm | 13pm | Vickers (£1) | 14pm | −1 |

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimate. *d* Dividend rate paid or payable on part of capital; cover based on dividend on full capital. *g* Assumed dividend and yield. *r* Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. *u* Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Φ Figures or report awaited. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ✱ With warrants. †† Dealings under special Rule. ✱ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Formerly dealt in under Rule 163(2)(a). ‡‡ Unit comprising five ordinary and three Cap. shares. Δ Issued free as an entitlement to Ordinary holders.



Companies and Markets

# UK COMPANY NEWS

## Associated Heat £18m valuation

The prospectus for the offer-for-sale by tender of 3.2m shares in Associated Heat Services is published today. The minimum tender price is 230p which capitalises the company at £18.4m.

Of the 3.2m shares offered for sale, 800,000 are new ordinary shares issued by the company and 2.4m represent the stake which a subsidiary of Ocean Transport and Trading is now selling. The remaining 60 per cent of the shares are owned equally by the National Coal Board and Compagnie Generale de Chauffe, a French heating services group.

Associated Heat designs and maintains heating systems for a wide variety of clients, including local authorities, commercial and industrial customers. Founded in 1966, it sales in 1977 reached £11.9m. By 1981, sales had climbed to £31.1m.

Pre-tax profits between 1977 and 1981 increased from £1.2m to £2.7m. The company forecasts that sales of the year ended last March will be £36.2m and profits will be £2.9m.

The directors intend to pay a net dividend for the year ending March 1983 of 9p, with 3p as the interim dividend.

S. G. Warburg, the merchant bank, is advising the company. Stockbrokers are Rowe and Pitman.

### ● comment

AHS is a rare animal indeed; no other company in Britain tries to tackle a client's energy costs with the same sort of comprehensive service for designing, installing and maintaining heating equipment. AHS' bankers reasoned that the market might have a little extra enthusiasm for such a company and advised a tender in order to funnel any such excitement into more cash for the vendors. The trouble is that AHS has a rather uninspiring profits record. For the last two years, profits have only moved from £2.6m to £2.9m while sales have ploughed ahead by 36 per cent. Further, the company says that the strong profit advance between 1979 and 1980 (from £1.5m to £2.6m) was aided in large part by stock profits. Still, AHS offers a quality service with an increasing emphasis on high-technology equipment for monitoring and optimising energy use. At the minimum tender price of 230p, the fully-taxed p/e of 12.5 seems to reasonably discount the dull profits of recent years. It's likely that bidders will accept something less than the 5.59 per cent yield at the minimum tender price.

## £100,000 deficit at Clayton Son

WITH SECOND half pre-tax profits falling from £342,000 to £81,000, Clayton, Son and Co (Holdings) incurred losses of £100,000 for 1981 as a whole, compared with profits of £613,000 in the previous year. The final dividend is raised from 4.6025p to 5.0683p for a same-again total of 6p.

Turnover of this engineer showed a modest improvement from £11.51m to £11.87m. The pre-tax figure was after associates profits of £201,000 (£121,000). There was a tax credit of £373,000 against a charge of £78,000. There were minority credits of £26,000 (£1,500) and extraordinary items of £77,000 (£30,000).

Stated earnings per 50p share were 11.96p (39.35p), excluding extraordinary items. On a CCA basis, there was a pre-tax loss of £503,000 (£173,000 profit).

## LCP expands U.S. automotive business

*LCP Holdings, an industrial holding company,* is further expanding its interests in automotive parts retailing in the U.S.

LCP's wholly owned U.S. subsidiary Whitlock Corporation has acquired the capital of CAL Auto Stores, which operates 26 automotive DIY stores in California. The purchase consideration, which will be adjusted by reference to asset value, is expected to be in the region of $2.7m in cash, of which $600,000 will be deferred for five years.

As a result of this purchase Whitlock now becomes a major new force in the retail automotive field with 75 stores in 10 *mainland U.S. states covering* the East Coast, the West Coast, and the Mid-West where operations presently extend as far south as Oklahoma.

Whitlock plans to continue to *search for profitable automotive* companies which will integrate with its nationwide expansion plans. The company is confident that the acquisition of CAL Auto will add materially to sales and earnings growth in the years ahead.

Consequent upon the acquisition, several senior management changes have been made within the Whitlock. Mr Norman Helft becomes group director of corporate merchandising and a senior vice president. Mr Bill Edvenson becomes president of CAL Auto and will shortly move to California. Mr Bill Fox Jr. becomes general manager of The National Auto Chain (the East Coast division) assuming the *responsibility formerly held by* Mr Edvenson, and Mr Len Shilz becomes general manager of the Mid-West division, assuming the responsibility formerly held by Mr Helft.

## Hallam loss of £0.56m for year

SYSTEM BUILDINGS maker Hallam Group of Nottingham moved further into the red in 1981. After a £391,000 deficit halfway, it reported a pre-tax loss of £557,000 for the year, compared with £83,000.

Turnover was higher at £11.4m (£11.15m). Tax took £49,000, down from £67,000. No ordinary or preference dividend is being paid for the year.

The directors say intense competition and an industrial dispute hit margins in the system building division. Demand for Volumetric Houses remains satisfactory, but orders for other products have fallen below expectations.

Intake of orders appears to be improving, they say, and the company should benefit from the re-organising of some activities *undertaken this year,* at a cost of about £183,000, and from an expected improvement in margins arising from product rationalisation. The plastics *division has been performing* better.

On a CCA basis, pre-tax loss is £610,000 (£158,000).

## Listing for Hawley subsidiary

Hawley Group, the diversified *leisure group,* is seeking a full stock exchange listing for its wholly-owned U.S. subsidiary, Electro-Protective Corporation.

Electro-Protective, which was traded on the U.S. Over-The-Counter market before Hawley bought it last year designs and sells burglar and fire alarms in the eastern U.S.

Hawley plans to sell 40 per cent of Electro-Protective's issued share capital through an offer for sale. A maximum of 37.5 per cent of Electro's shares will be reserved for Hawley shareholders.

Barclays Merchant Bank is advising Hawley, while stockbrokers for the offer for sale will be Carr Sebag.

### LUCAS U.S. EXPANSION

Lucas has acquired Ledex Inc. of Dayton, Ohio, a leading U.S. manufacturer of electro-mechanical and electronic equipment which in 1981 had sales of U.S.$21m (£12m).

The value of the purchase was not disclosed.

## Fitzwilton mid-term fall

*Taxable profits of Dublin-based investment company Fitzwilton* fell from I£679,000 to I£543,000 in the half-year to December 31 1981.

The interim dividend is maintained at 2p net per 25p share—last year a total of 5.5p was paid from pre-tax profits of £1.22m (£1.8m).

Mr Tony O'Reilly, chairman, says the group's textile importing and distributing subsidiary made a useful gain and there was a 25 per cent improvement in the profit attributable to the company's investment in Independent Newspapers. The fall in taxable profits reflects the group's investment in Atlantic Resources and the very depressed nature of the domestic *economy, Mr A'Reilly adds.*

Pre-tax profits were struck after interest charges of £40,000 (£37,000) and depreciation of £24,000 (£27,000) and included associated profits of £258,000 (£205,000). Tax took £80,000 (£25,000). Following a £51,000 debit (nil) for Fitzwilton's share of an extraordinary loss of an associate, the attributable profits emerged at £412,000 (£604,000 after minorities of £50,000).

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

**TODAY**

Interim: Rand Mines Properties.

Finals: Foseco Minsep, French Kier, Midland Marts, Roberts Adlard, Scottish Heritable Trust, Sound Diffusion, A. G. Stanley, and Tootal.

**FUTURE DATES**

Interims:

| | |
|---|---|
| Cooper (Frederick) | May 11 |
| M. Y. Dart | May 6 |
| NSS Newsagents | May 11 |
| Pentland Investment Trust | May 19 |
| Thames Investment and Secs. | May 6 |

Finals:

| | |
|---|---|
| Arrow Chemicals | May 7 |
| Bulmer and Lumb | May 12 |
| City of Oxford Invest. Trust | May 12 |
| Courtaulds | May 27 |
| Garnar Booth | May 6 |
| Holical Bar | May 6 |
| Minster Assets | May 26 |
| Plessey | May 27 |
| TR Property Investment Trust | May 11 |
| Warner Estate | May 13 |
| Yorklyde | May 7 |

# PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

| | Date | Announcement last year |
|---|---|---|
| *AE | May 27 | Int. nil |
| *Akroyd and Smithers | May 10 | Int. 3.5 |
| Allied Breweries | June 5 | Final 3.0 |
| Allied Irish Banks | May 27 | Final 4.5 |
| Assoc. British Foods | June 8 | Sec. int. 2.8 |
| *Assoc. Paper Inds. | May 11 | Int. 0.6 |
| *ANZ Banking | May 17 | Int. 14 cents |
| Avon Rubber | June 3 | Int. nil |
| BOC | May 26 | Int. 2.31 |
| *Bank of Ireland | May 13 | Final 3.5 |
| Bass | June 9 | Int. 2.93 |
| Bath and Portland | June 5 | Int. 2.0 |
| Boots | May 21 | Final 4.625 |
| *British Home Stores | May 10 | Final 2.75 |
| *British Sugar | May 6 | Int. 7.5 |
| *Brixton Estates | May 5 | Final 1.68 |
| Brockhouse | May 22 | Int. nil |
| Brown (Matthew) | May 7 | Int. 1.35 |
| Brown Shipley | June 11 | Final 7.5 |
| Cap. and Counties Prop. | May 29 | Final 2.4 |
| Carless Capel | June 2 | Final 1.78 |
| Coats Patons | May 13 | Final 2.6 |
| Coalite | June 3 | Final 2.8 |
| Cohen (A.) | June 11 | Final 4.8 |
| Common Bros. | May 5 | Int. 5.0 |
| *Courtaulds | May 27 | Final 1.0 |
| *Debenhams | May 21 | Final 4.324 |
| De La Rue | June 2 | Final 14.4 |
| Elliott (B.) | June 10 | Final 3.0 |
| European Ferries | May 11 | Final 3.45 |
| Extel | May 28 | Final 5.75 |
| *French Kier | May 4 | Final 2.3 |
| *Garrard and Nat. Disc. | May 6 | Final 9 |
| *Grand Metropolitan | May 14 | Int. 3.175 |
| Gt. Portland Estates | June 10 | Final 4.0 |
| Guinness (A.) | June 12 | Int. 1.575 |
| *Hall (Matthew) | May 5 | Final 6.552 |
| Hanson Trust | June 10 | Int. 4.25 |
| Harrisons and Crosfield | June 2 | Final 20.5 |
| Heath (C. E.) | May 19 | Final 7.4 |
| *Hepworth (J.) | May 7 | Int. 0.79 |
| Hickson and Welch | June 4 | Int. 2.5 |
| Hill Samuel | June 11 | Final 4.8 |
| International Paint | May 28 | Final 2.543 |
| Johnson and Firth Brown | May 22 | Int. 1.3 |
| *Kwik Save Discount | May 6 | Int. 1.6 |
| Land Securities | May 18 | Final 7.0 |
| London and Northern | May 20 | Final 2.36 |
| London O'seas Freighters | June 10 | Final 1.072 |
| MEPC | June 2 | Int. 2.0 |
| Marley | June 3 | Int. 1.0 |
| *Metal Box | June 7 | Final 8.51 |
| *Mowlem (John) | May 5 | Final 5.86 |
| Northern Foods | June 4 | Int. 1.8 |
| Pegler-Hattersley | June 10 | Final 5.5 |
| *P & O | May 5 | Final 5 |
| Pilkington Bros. | June 12 | Sec. int. 5.5 |
| Pleasurama | May 18 | Int. 2.5 |
| *Plessey | May 27 | Final 4.411 |
| Premier Cons. | June 8 | Final 10½ |
| Ranks Hovis McDougall | May 21 | Int. 1.524 |
| *RHP | May 27 | Int. 2.0 |
| Redfearn Nat. Glass | May 20 | Int. 3.0 |
| Reed Intl. | June 2 | Final 9.0 |
| *Royal Bank Scotland | May 6 | Int. 2.4 |
| *Sainsbury (J.) | May 5 | Final 5.0 |
| Samuel (H.) | June 10 | Final 4.75 |
| 600 Group | June 11 | Final 2.81 |
| Sketchley | June 9 | Final 6.2 |
| Steetley | May 26 | Int. 0.45 |
| *Tate and Lyle | May 26 | Int. 4.0 |
| Trafalgar House | May 13 | Int. 3.0 |
| UBM | May 28 | Final 1.0 |
| *UDS | May 6 | Final 3.61 |
| Vaux Breweries | May 8 | Int. 2.5 |
| Westland | June 10 | Int. 2.5 |
| Whitbread | May 19 | Final 4.6 |
| *Whrhmptn. and Dudley Brws. | May 25 | Int. 1.65 |

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

### LEOPOLD JOSEPH

Edinburgh Investment Trust has acquired a further 107,000 ordinary shares in Leopold Joseph Holdings, the investment holding company, bringing its shareholding to 295,000 (11.34 per cent).

Edinburgh Investment says the purchase is purely an investment decision to build up its stake.

### MANIFOLD INDEXING

Manifold Indexing of Leyton, East London, has recently been acquired by three executive directors, Mr Roger Powell, Mr Fred Ralph and Mr John Reeve from its parent company Icore Superflexit. Also joining the board is Mr Len Weaver of P-E Consulting Group.





## IN BRIEF

BOWATER CORPORATION (paper group)—Results for 1981 reported on April 7, 1982. Shareholders' funds £389.2m (£322.8m): current assets £550.3m (£382.6m): net current assets £150.1m (£96.6m): increase in net liquid funds £21m (£30.1m decrease). An ex-gratia payment of £25,000 (£9,000) was made during the year to a former director. Meeting: Hotel Inter-Continental, 1 Hamilton Place, W. on May 21, at 11.30 am.

JARDINE THOMPSON GRAHAM (Lloyd's reinsurance broker)—including reinsurance company activities of Glanvill Enthoven for six months, group profit for year 1981 was £3.17m (£1.72m). Turnover rose by 55 per cent. Company is part of Jardine Insurance Brokers.

*MANDERS (HOLDINGS)* (paint and printing ink manufacturer)—Results for 1981 reported March 26 1982. Fixed assets £21.59m (£21.38m): net current assets £11.07m (£9.52m): shareholders' funds £31.45m (£29.82m): increase in *net liquid funds £3.34m (£1.08m).* Meeting: Wolverhampton, April 29, at noon.

BLACKWOOD HODGE (earthmoving equipment sales and service)—Results for 1981 reported April 15. Shareholders' funds £68.13m (£67.77m). Fixed assets £45.07m (£42.12m): current assets £195.09m (£179.75m), including stocks £123.74m (£115.04m) and debtors £63.07m (£56.78m): current liabilities £143.87m (£134.5m), including bank liabilities £62.29m (£46.3m). Term loans totalled £24.13m (£15.15m). Increase in net bank indebtedness £15.68m (£1.89m). Chairman's emolument £35,617 (£25,802). Meeting, Dorchester Hotel, W. May 26, 12.15 pm.

ANCHOR CHEMICAL GROUP—Results for 1981 and prospects reported April 15. Shareholders' funds £2.33m (£2.09m). Fixed assets £1.59m (£1.62m); net current assets £841,768 (£571,963). Increase in working capital £295,582 (£426,504 decrease). Members of the Hewlett family and certain family trusts have informed that they hold in aggregate 19 per cent of the ordinary share capital. Meeting: Manchester, May 18, 11.30 am.

ASSOCIATED BOOK PUBLISHERS (publisher and bookseller)—Results for 1981 reported on April 8 1982. Shareholders' funds £10.43m (£8.72m): fixed assets £4.02m (£3.99m): net current assets £9.7m (£7.51m); increase in net liquid funds £1.47m (£886,000). Chairman says recession is still with us and all signs point to continuing restrictions in consumer and institutional spending, the effects of which will be inhibiting for several years ahead. Company is, nonetheless, capable of steady growth. Meeting: 11, New Fetter Lane, EC, May 25 at noon.

GIBBS AND DANDY (builders' merchants) — Results for 1981 reported April 5. Group fixed assets £2.23m (£1.92m), net current assets £1.68m (£1.61m). Shareholders' funds £3.83m (£3.38m). Chairman says increased Home Improvement Grants and reduction in mortgage rate should increase demand and group could reap some benefit in second half. Retail premises now open on Saturday afternoons and early indications suggest this move justified. Meeting, Luton, May 19.

KLEINWORT BENSON LONSDALE (banker and investment trust)—Results for 1981 reported on March 31 1982. Shareholders' funds £171.1m (£154.86m); customers' deposits of gold and silver £500.7m (£556.46m): acceptances on behalf of customers £412.67m (£373.1m); balances with bankers, money at call and bullion £132.51m (£138.86m); loans to local authorities and banks £810.15m (£731.23m); investments £64.42m (£74.79m). Meeting: 20, Fenchurch Street, EC, May 18 at 11.45 am.

# WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on April 30 1982. In some cases rates are nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on U.S. dollar parities and going sterling/dollar rates; (S) member of the sterling area other than Scheduled Territories; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers' rates; (cm) commercial rate; (ch) convertible rate; (fn) financial rates; (exC) exchange certificate rate; (k) Scheduled Territory; (nc) non-commercial rate; (nom) nominal; (o) official rate; (sg) selling rate.

| PLACE | LOCAL UNIT | VALUE OF £ STERLING |
|---|---|---|
| Afghanistan | Afghani | 99.00 |
| Albania | Lek | 10.17 |
| Algeria | Dinar | 8.1448 |
| Andorra | French Franc / Spanish Peseta | 10.920 / 185.85 |
| Angola | Kwanza | (CM) 60.7025 / (T) 62.681 |
| Antigua (S) | E. Caribbean $ | 4.85 |
| Argentina | Ar. Peso | 21,555.0 (3) |
| Australia (S) | Australian $ | 1.6895 |
| Austria | Schilling | 29.405 |
| Azores | Portug'se Escudo | 127.00 |
| Bahamas (S) | Ba. Dollar | 1.7940 |
| Bahrain (S) | Dinar | 0.675 |
| Balearic Isles | Spa. Peseta | 185.85 |
| Bangladesh (S) | Taka | 38.25 |
| Barbados (S) | Barbados $ | 3.588 |
| Belgium | B. Franc | (cm) 78.10 / (fn) 85.80 |
| Belize | B $ | 3.588 |
| Benin | C.F.A. Franc | 546.00 |
| Bermuda (S) | Bda $ | 1.7940 |
| Bhutan | Indian Rupee | 16.70 |
| Bolivia | Bolivian Peso | (cm) 78.94 / (F)(A) 179.40 |
| Botswana (S) | Pula | 1.6690 |
| Brazil | Cruzeiro :: | 279.40 |
| Brit. Virgin Isles (S) | U.S. $ | 1.7940 |
| Brunei (S) | Brunei $ | 3.7800 |
| Bulgaria | Lev | 1.6738 |
| Burma | Kyat | 11.57 |
| Burundi | Burundi Franc | 158.165 |
| Cameroon Republic | C.F.A. Franc | 546.00 |
| Canada | Canadian $ | 2.1845 |
| Canary Islands | Spanish Peseta | 185.85 |
| Cape Verde Isle | Cape V. Escudo | 64.45 |
| Cayman Islands (S) | Cay. Is. $ | 1.4950 |
| Cent. Afr. Republic | C.F.A. Franc | 546.00 |
| Chad | C.F.A. Franc | 546.00 |
| Chile | C. Peso | (Bk) 70.30 |
| China | Renminbi Yuan | 3.2819 |
| Colombia | C. Peso | (F) 111.37 |
| Comoro Islands | C.F.A. Franc | 546.00 |
| Congo (Brazzaville) | C.F.A. Franc | 546.00 |
| Costa Rica | Colon | (O) 35.88 / (F) 71.76 |
| Cuba | Cuban Peso | 1.4610 |
| Cyprus (S) | Cyprus £ | 0.8180 |
| Czechoslovakia | Koruna | (com) 10.80 / (n/c) 18.81 / (T) 18.20 |
| Denmark | Danish Krone | 14.265 |
| Djibouti | Fr. | 300 (sg) |
| Dominica (S) | E. Caribbean $ | 4.85 |
| Dominican Repub. | Dominican (Peso) | 1.7940 |
| Ecuador | Sucre | (O) 44.84 / (F) 77.60 |
| Egypt | Egyptian £ | (U) 1.59 |
| Equatorial Guinea | Ekuele | 371.7 |
| Ethiopia | Ethiopian Birr | (P) 3.6400 |
| Falkland Islands (S) | Falkland Is £ | 1.0 |
| Faroe Islands | Danish Krone | 14.265 |
| Fiji Islands | Fiji $ | 1.6445 |
| Finland | Markka | 8.1633 |
| France | French Franc | 10.920 |
| French Cty in Af. | C.F.A. Franc | 546.00 |
| French Guiana | Local Franc | 10.920 |
| French Pacific Is. | C.F.P. Franc | 190 (sg) |
| Gabon | C.F.A. Franc | 546.00 |
| Gambia (S) | Dalasa | 4.0 |
| Germany (East) | Ostmark | 4.185 |
| Germany (West) | Deutsch Mark | 4.185 |
| Ghana (S) | Cedi | 4.90 |
| Gibraltar (K) | Gibraltar £ | 1.0 |
| Greece | Drachma | 112.292 |

| PLACE | LOCAL UNIT | VALUE OF £ STERLING |
|---|---|---|
| Greenland | Danish Kroner | 14.265 |
| Grenada (S) | E. Caribbean $ | 4.85 |
| Guadaloupe | Local Franc | 10.920 |
| Guam | U.S. $ | 1.7940 |
| Guatemala | Quetzal | 1.7940 |
| Guinea Republic | Syli | 39.33 |
| Guinea Bissau | Peso | 70.11 |
| Guyana (S) | Guyanese $ | 5.5700 |
| Haiti | Gourd | 8.97 |
| Honduras Repub. | Lempira | 3.62 |
| Hong Kong (S) | H.K. $ | 10.425 |
| Hungary | Forint | 61.8100:: |
| Iceland (S) | I. Krona | 18.0212 |
| India (S) | Ind. Rupee | 16.70 |
| Indonesia | Rupiah | 1,170.58 |
| Iran | Rial | 146.00 (sg) |
| Iraq | Iraq Dinar | 0.52677 |
| Irish Republic (k) | Irish £ | 1.2110 |
| Israel | Shekel | 37.15 |
| Italy | Lira | 2,330.00 |
| Ivory Coast | C.F.A. Franc | 546.00 |
| Jamaica (S) | Jamaica Dollar | 3.2077 |
| Japan | Yen | 423.0 |
| Jordan (S) | Jordan Dinar | 0.612 |
| Kampuchea | Riel | 2,152.8 |
| Kenya (S) | Kenya Shilling | 18.900 |
| Kiribati | Australian $ | 1.6895 |
| Korea (Nth) | Won | 1.73 (ǁ) |
| Korea (Sth) | Won | 1,293.50 |
| Kuwait | Kuwait Dinar | 0.512 |
| Laos | New Kip | 17.94 |
| Lebanon | Lebanese £ | 8.9135 |
| Lesotho | Loti | 1.8736 |
| Liberia | Liberian $ | 1.7940 |
| Libya | Libyan Dinar | 0.5311 |
| Liechtenstein | Swiss Franc | 3.515 |
| Luxembourg | Lux Franc | 79.10 |
| Macao | Pataca | 12.03 |
| Madeira | Portug'se Escudo | 127.00 |
| Malagasy Republic | MG Franc | 546.00 |
| Malawi (S) | Kwacha | 1.9200 |
| Malaysia (S) | Ringgit | 4.1195 |
| Maldive Islands (S) | Rufiyaa | 13.54 |
| Mali Republic | Mali Franc | 1,092.00 |
| Malta (S) | Maltese £ | 0.720 |
| Martinique | Local Franc | 10.92 |
| Mauritania | Ouguiya ‡ | 92.01 |
| Mauritius (S) | M. Rupee | 18.950 |
| Mexico | Mexican Peso | 83.50 |
| Miquelon | C.F.A. Franc | 546.00 |
| Monaco | French Franch | 10.920 |
| Mongolia | Tugrik | (o) 5.78 (ǁ) |
| Montserrat | E. Caribbean $ | 4.85 |
| Morocco | Dirham | 10.50 (sg) |
| Mozambique | Metical | 53.18 |
| Nauru | Australian Dollar | 1.6895 |
| Nepal | Nepalese Rupee | 23.60 |
| Netherlands | Guilder | 4.635 |
| Netherland Antilles | Antillian Guilder | 3.2113 |
| New Zealand (S) | N.Z. Dollar | 2.3195 |
| Nicaragua | Cordoba | 18.02 |
| Niger Republic | C.F.A. Franc | 546.00 |
| Nigeria (S) | Naira | 1.195189 (sg) |
| Norway | Norway Krone | 10.73 |
| Oman Sul'ate of (S) | Rial Omani | 0.618 |
| Pakistan | Pakistan Rupee | 20.47 |
| Panama | Balboa | 1.7940 |
| Papua N.Guinea (S) | Kina | 1.2895 |
| Paraguay | Guarani | (O) 237.11 / (F) 281.64 |

| PLACE | LOCAL UNIT | VALUE OF £ STERLING |
|---|---|---|
| Peru | Sol | exe (A) 1,098.5 |
| Philippines | Philippine Peso | 14.81 |
| Pitcairn Islands (S) | £ Sterling / New Zealand $ | — / 2.3195 |
| Poland | Zloty | (Cm) 148.66 / (T) 148.66 |
| Portugal | Portugu'se Escudo | 127.00 |
| Puerto Rico | U.S. $ | 1.7940 |
| Qatar (S) | Qatar Ryal | 6.51 |
| Reunion Ile de la | French Franc | 10.920 |
| Romania | Leu | (Cm) 7.91 / (n/c) 19.47 |
| Rwanda | Rwand Franc | 168.87 |
| St. Christopher (S) | E. Caribbean $ | 4.85 |
| St. Helena | St. Helena £ | 1.0 |
| S. Lucia | E. Caribbean $ | 4.85 |
| St. Pierre | Local Franc | 10.920 |
| St. Vincent (S) | E. Caribbean $ | 4.85 |
| Salvador El | Colon | 4.51 |
| Samoa American | U.S. $ | 1.7940 |
| San Marino | Italian Lira | 2,330.00 |
| Sao Tome & Prin. | Dobra | 73.10 |
| Saudi Arabia | Ryal | 6.14 |
| Senegal | C.F.A. Franc | 546.00 |
| Seychelles | S. Rupee | 11.32 (sg) |
| Sierra Leone (S) | Leone | 2.1540 |
| Singapore (S) | Singapore $ | 3.7800 |
| Solomon Islands (S) | Solomon Is. $ | 1.6395 |
| Somali Republic | Somali Shilling (1) | (A) 11.59 |
| Somali Republic | Somali Shilling (2) | 22.35 |
| South Africa (S) | Rand | 1.8736 |
| South West African Territories (S) | S. A. Rand | 1.8736 |
| Spain | Peseta | 185.85 |
| Spanish ports in North Africa | Peseta | 185.85 |
| Sri Lanka (S) | S. L. Rupee | 36.90 |
| Sudan Republic | Sudan £ (U) | 1.6146 |
| Surinam | S. Guilder | 3.2113 |
| Swaziland (S) | Lilangeni | 1.8736 |
| Sweden | S. Krona | 10.40 |
| Switzerland | Swiss Franc | 3.515 |
| Syria | Syria £ | (A) 10.0 |
| Taiwan | New Taiwan $ | 68.17 |
| Tanzania (S) | Tan. Shilling | 16.55 |
| Thailand | Baht | 41.12 |
| Togo Republic | C.F.A. Franc | 546.00 |
| Tonga Islands (S) | Ha'anga | 1.6895 |
| Trinidad (S) | Trinidad & Tob. $ | 4.3056 |
| Tunisia | Tunisian Dinar | 0.990 (sg) |
| Turkey | Turkish Lira | 263.07 |
| Turks & Caicos | U.S. $ | 1.7940 |
| Tuvalu | Australian $ | 1.6895 |
| Uganda (S) | Uganda Shilling | 150.0 |
| United States | U.S. Dollar | 1.7940 |
| Uruguay | Uruguay Peso | (cm) 21.82 / (fn) 21.84 |
| Utd. Arab Emirates | U.A.E. Dirham | 6.57 |
| U.S.S.R. | Rouble | 1.2805 |
| Upper Volta | C.F.A. Franc | 546.00 |
| Vanuatu | Vatu / Aust. Dollar | 170.65 / 1.6895 |
| Vatican | Italian Lira | 2,330.00 |
| Venezuela | Bolivar | 7.75 |
| Vietnam | Dong | (O) 3.8475 / (T) 4.25 (ǁ) |
| Virgin Island U.S. | U.S. Dollar | 1.7940 |
| Western Samoa (S.) | Samoan Tala | 2.08 |
| Yemen (Nth) | Ryal | 8.14 (sg) |
| Yemen (Sth) | S. Yemen Dinar | (A) 0.6195 |
| Yugoslavia | New Y Dinar | 81.8551 |
| Zaire Republic | Zaire | 10.05478 |
| Zambia | Kwacha | 1.6225 |
| Zimbabwe | Zimbabwe $ | 1.3150 |

*That part of the French community in Africa formerly French West Africa or French Equatorial Africa. † Rupees per pound. ‡ General rates of oil and iron exports 75.35. ** Rate is the transfer market (controlled) ‡‡ Now one official rate. (U) Unified rate. Applicable on all transactions except countries having a bilateral agreement with Egypt and who are not members of IMF. (ǁ) Based on gross rates against Russian rouble. (1) Parallel exchange rate for essential imports. (2) Exports, non-essential imports and transfer. (3) Now one rate. (4) Essential goods.

## FT Share Information

The following securities have been added to the Share Information Service.

Amersham International (Section: Chemicals).

GRA Group (Leisure).

Immediate Business Systems (Electricals).

Oceanics (Electricals).

## GEN & COMMERCIAL

Refuge Assurance has withdrawn its offer for General and Commercial Investment Trust in the light of Britannia Arrow Holdings' higher bid. General and Commercial's directors say they will write to shareholders soon to recommend that they accept the Britannia Arrow offer.

## BRENT CHEMICAL

Brent Chemical International has completed the acquisitions of Reddish Chemical Company and Reddish Detergents. Consideration was satisfied by the issue of 2.56m new ordinary shares in Brent, whose directors say the group's preliminary accounts for March indicate an improving trend.

## SPAIN

| April 30 | Price % | + or − |
|---|---|---|
| Banco Bilbao | 344 | −1 |
| Banco Central | 334 | |
| Banco Exterior | 310 | |
| Banco Hispano | 310 | |
| Banco Ind. Cat. | 112 | +2 |
| Banco Santander | 320 | −2 |
| Banco Urquijo | 200 | |
| Banco Vizcaya | 358 | −2 |
| Banco Zaragoza | 245 | −1 |
| Dragados | 147 | −3 |
| Espanola Zinc | 69 | |
| Fecsa | 63.2 | +0.2 |
| Gal. Preciados | 40 | |
| Hidrola | 63.7 | +0.2 |
| Iberduero | 57 | +/.5 |
| Petroleos | 90.2 | +0.8 |
| Petroliber | 99 | |
| Sogefisa | 6.50 | |
| Telefonica | 71.7 | |
| Union Elect. | 64.2 | +0.2 |



THE TRING HALL USM INDEX

122.1 (+1.0)

Close of business 30/4/82

BASE DATE 10/11/80 100

Tel: 01-638 1591

LADBROKE INDEX

Close 572-577 (−5)



## KCA BROKERS

KCA International and KCA Drilling have appointed Rowe & Pitman as stockbrokers to their companies and Samuel Montagu as their merchant bankers as from May 1 1982.

## SHARE STAKES

Steetley Company — Mr R. D. Turner, director, has sold the following shares:— 50,000 ordinary shares beneficially held and 45,000 ordinary shares held as trustee.

## LOCAL AUTHORITY BOND TABLE

| Authority (telephone number in parentheses) | Annual gross interest | Interest payable | Minimum sum | Life of bond |
|---|---|---|---|---|
| | % | | £ | Year |
| Knowsley (051-548 6555) | $13\frac{7}{8}$ | ½-year | 1,000 | 4-8 |

## Public Works Loan Board rates

Effective April 24

| Years | Quota loans repaid by EIP† | Quota loans repaid A‡ | Quota loans repaid at maturity§ | Non-quota loans A* repaid by EIP† | Non-quota loans A* repaid A‡ | Non-quota loans A* repaid at maturity§ |
|---|---|---|---|---|---|---|
| Up to 5 | $14\frac{3}{8}$ | $14\frac{1}{2}$ | $14\frac{3}{4}$ | $15\frac{1}{8}$ | $15\frac{1}{4}$ | $15\frac{1}{4}$ |
| Over 5, up to 6 | $14\frac{1}{2}$ | $14\frac{1}{2}$ | $14\frac{3}{8}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{5}{8}$ |
| Over 6, up to 7 | $14\frac{5}{8}$ | $14\frac{5}{8}$ | $14\frac{7}{8}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{5}{8}$ |
| Over 7, up to 8 | $14\frac{5}{8}$ | $14\frac{3}{4}$ | $14\frac{3}{4}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{5}{8}$ |
| Over 8, up to 9 | $14\frac{3}{4}$ | $14\frac{3}{4}$ | $14\frac{3}{4}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{5}{8}$ |
| Over 9, up to 10 | $14\frac{3}{4}$ | $14\frac{3}{4}$ | $14\frac{3}{4}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{5}{8}$ |
| Over 10, up to 15 | $14\frac{3}{4}$ | $14\frac{5}{8}$ | $14\frac{1}{2}$ | $15\frac{3}{8}$ | $15\frac{3}{8}$ | $15\frac{3}{8}$ |
| Over 15, up to 25 | $14\frac{1}{2}$ | $14\frac{3}{8}$ | $14\frac{3}{8}$ | $15\frac{1}{4}$ | $15\frac{3}{8}$ | $15\frac{3}{8}$ |
| Over 25 | $14\frac{3}{8}$ | $14\frac{3}{8}$ | $14\frac{3}{8}$ | $15\frac{3}{8}$ | $15\frac{1}{4}$ | $15\frac{1}{4}$ |

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

## APPOINTMENTS

# Senior partner at Deloittes

Mr Eric Meade has been appointed senior partner of chartered accountants DELOITTE HASKINS AND SELLS. He replaces Mr David Rae Smith who has retired.

*

Mr G. A. H. Watts has been appointed to the boards of the BET GROUP'S three plant hire companies — Grayston, Eddison Plant and J. D. White.

*

Mr R. S. Hendeson and Mr J. W. S. Lewis have become partners of stockbrokers SHEPPARDS AND CHASE.

*

GODSELL AND CO has appointed Mr Brian M. Rieeman to the board.

*

G. R. DAWES AND CO has appointed Mr Ian Moffat as a director.

*

Mr Peter Dew has been appointed a director of GT MANAGEMENT.

*

Mr G. H. Bignall has retired as chairman of JOHN BEALES ASSOCIATED COMPANIES. Mr David Tittle has been appointed chairman in addition to his responsibilities as managing director.

*

Mr Jerome L. Hanan has been appointed a director of THAMES INVESTMENTS AND SECURITIES.

*

GARDNER MOUNTAIN AND CAPEL-CURE AGENCIES have formed a new wholly owned subsidiary, GARDNER MOUNTAIN MANAGEMENT SERVICES. The directors appointed to the board of the new company are: Mr D. D. Wright (chairman), Mr G. T. Alston, Mr E. G. Carter, Mr M. C. Chambers, Mr P. Moore, Mr F. H. Mundy, Mr J. D. Plant and Mr M. J. Terry. Mr Dennis D. Wright has also been appointed a director of M. C. WINN UNDERWRITING AGENCIES.

*

Mr Kenneth Hill and Mr Michael Moffett have been appointed directors of BELGRAVE (BLACKHEATH).

*

Sir Jonathan Clarke has been appointed to the board of RAMSBURY BUILDING SOCIETY with effect from May 1 1982.

*

Mr Gerald Westbury, a consultant surgeon at Westminster Hospital since 1960 and chairman of its Department of Clinical Oncology, has been appointed to a newly-created Chair of Surgery at the Institute of Cancer Research and the Royal Marsden Hospital.

*

Mr James P. Foley has been appointed sales and marketing director of WORCESTER CONTROLS (UK) LTD, a subsidiary of BTR.

*

Mr Anthony J. Bennett has been appointed sales director of HALIFAX TOOL COMPANY in the engineering division of the Marshalls Halifax Group. He was previously sales and marketing director of Record Ridgway Tools.

*

ROBERT CUBITT HOLDINGS announce that from May 1 1982 the following have been promoted to the position of executive director within the group's subsidiaries. Mr J. Couzens, Mr D. C. Norman (Cubitt and Gotts), Mr B. M. Rogers (Cubitt Plant Hire), Mr P. J. Barker (A. F. Knights Builders), Mr G. A. Pearson (A. F. Knights Electrical), and Mr R. J. Tarling (Clement Theobald and Son).

*

Mr G. N. Thornton, group comptroller of ROYAL INSURANCE, retires on June 30 1982. Mr W. R. Rowland is appointed group comptroller based in London from July 1, 1982, and Mr R. Cunliffe is appointed deputy group comptroller, Group Head Office, based in Liverpool from July 1, 1982.

*

ROBSON RHODES, chartered accountants, announces that Mr David Royston Philip, who has been a senior manager in their London office, becomes a partner on May 1 1982.

*

Sir Alastair Coats will be retiring as senior partner from the partnership of VIVIAN GRAY AND CO, stockbrokers, on May 14, but will be remaining with the firm as an associate member. Mr M. M. D. Laidlaw and Mr J. A. D. Skailes have been appointed joint senior partners with effect from May 17.

*

Mr J. A. Clubb has been appointed executive vice-president of the BRITISH SCRAP FEDERATION to take effect from June 1.

*

Mr J. A. B. Kelly has been appointed to the board of BROWN SHIPLEY AND CO with effect from May 1 1982.

*

STURLA HOLDINGS has appointed Mr Robert S. Hardy to the board as a non-executive director. He is president of Northern Telecom Finance Corporation. Mr Tony Rudd is retiring from the board because of ill health.

*

At the FOREIGN EXCHANGE AND CURRENCY DEPOSIT BROKERS' ASSOCIATION Mr R. H. Bateman of Kirkland-Whittaker Group has been elected honorary secretary and honorary treasurer, replacing Mr J. L. Little.

*

Mr Kenneth Durham, chairman-elect of Unilever, has been elected chairman of the council of the TRADE POLICY RESEARCH CENTRE. He succeeds Lord McFadzean of Kelvinside, chairman of Rolls-Royce, who became chairman of the centre in 1971. The centre was established in London in 1968 to promote independent research and public discussion of international economic policy issues.

*

Today Mr R. M. Reed, the senior partner, and Mr K. J. Meek retire from RICHARDS, BUTLER AND CO., solicitors. Mr G. T. Hardee becomes senior partner of the firm and Mr C. G. Howse becomes a partner on May 1.

*

The industrial division of AEROQUIP (UK) has appointed Mrs Norma Knape as marketing director. She was general manager of the Yates Barco division.

*

Mr G. A. Hazard has been promoted to the newly created position of managing director of PENTOS. He joined Pentos in January 1980 as chief executive of Pentos Engineering Group. Mr Hazard will have line responsibility for publishing and bookselling, engineering and building services, and home and office products.

*

Mr Brian Jones, deputy editor of The Western Daily Press, Bristol, is to be the new editor of The Bristol Evening Post. He will succeed the present Post editor, Mr Eric Price, who is due to retire next year. Mr Jones was a deputy editor of The Guardian.

*

Mr Ian Dallison, inland transport manager of the British Steel Corporation, has been elected president of the FREIGHT TRANSPORT ASSOCIATION. He succeeds Mr Len Payne, director of distribution, J. Sainsbury.

*

FS ASSURANCE has appointed Mr C. A. MacLeod as a director. He is chairman of Lyle Shipping Company and holds board appointments with a number of other Scottish companies.

*

Mr David Waller has been promoted to the board of KRAUSHAR AND EASSIE.

*

Mr F. Wellings has become a shareholding member of LAING AND CRUICKSHANK, stockbrokers. Mr M. Popham has retired as a shareholding member but will remain associated with the company as a consultant for a further two years.

*

Mr I. Paterson, at present an assistant general manager, MIDLAND BANK, has been appointed general manager (management services) from May 1.

# The week's schedule in Parliament

TODAY

Commons: Local Government and Planning (Scotland) Bill: Remaining Stages.

Lords: Copywright Act (Amendment) Bill, Third Reading. Oil and Gas (Enterprise) Bill, Committee. Administration of Justice Bill, Report.

Select Committees: Environment. Subject: Inquiry into the methods of financing local government in the context of the Government's Green Paper (CMND 8449). Witnesses: Department of the Environment officials and Inland Revenue officials. (Room 16, 4.00 pm).

Parliamentary Commissioner for Administration. Subject: Reports of the Parliamentary Commissioner for Administration. Witness: Sir Cecil Clothier, KCB, QC, Parliamentary Commissioner for Administration. (Room 5, 5.00 pm).

Foreign Affairs: Overseas Development Sub-Committee. Subject: Overseas Development Administration Supply Estimates 1982-83, Class II, Votes 9.10.11. Witnesses: Council for World Development Education. (Room 18, 5.30 pm).

TOMORROW

Commons: Finance Bill, Committee stage. Motion relating to the Supplementary Benefits (Claims and Payments) Amendment Regulations.

Lords: Debate on problems of inland transport with particular reference to the economic and social consequences of traffic congestion on the roads and in big cities, and the need for balanced, efficient and economical viable rail and road transport. Supply of Goods and Services Bill, Second Reading.

Select Committees: Home Affairs. Subject: Police complaints procedure. Witnesses: Scottish Council for Civil Liberties; Scottish Police Federation. (Room 8, 10.30 am).

Welsh Affairs. Subject: Scrutiny of Welsh Office departments. Witnesses: Welsh Office industry group. (Room 18, 10.30 am).

Public Accounts. Subject: Royalties and tax levied on the oil industry: North Sea operators. Witnesses: Sir Lawrence Airey, KCB, chairman of the Board of Inland Revenue; Sir Donald Maitland GCMG, OBE, Permanent Under-Secretary of State, Department of Energy. (Room 16, 4.00 pm).

Treasury and Civil Service sub-Committee. Subject: The structure of personal income taxation and income support. Witnesses: Consultative Committee of Accountancy Bodies; Professor Townsend. (Room 15, 4.15 pm).

Employment. Subject: Youth unemployment and training. Witness: Mr David Young, chairman, Manpower Services Commission. (Room 8, 4.30 pm).

Committee on Private Bills. Unopposed Bills: 1. East Lindsey District Council Bill (Lords). 2. John Francis Dare and Gillian Loder Dare (Marriage Enabling) Bill (Lords). 3. Hugh Small and Norma Small (Marriage Enabling) Bill (Lords). Room 9, (4.00 pm).

THURSDAY

Commons: Supply Debate: Economic and Employment Prospects in Wales, on a motion for the adjournment.

Lords: Epsom and Walton Downs Regulations Bill, Second Reading. Administration of Justice Bill, Report. Debate on the 7th Report of the EEC State Aids to Agriculture.

FRIDAY

Commons: Private members' Bills.

## Newcomen's beam-engines

STEAM BEAM-ENGINES, invented by Cornishman Thomas Newcomen and critical to the Industrial Revolution, are being preserved after the decades in which they were sold for scrap or allowed to rust. Not one has been destroyed in the past two years says an engineering historian in a book published yesterday.

*The Beam-Engine, by T. E. Cowley; Senecio Publishing Company; £9.75.*

## INSURANCE

# U.S. insurance faces uncertain future

BY RICHARD LAMBERT IN NEW YORK

THEY put on a brave show in Philadelphia last week. But furrowed brows were almost as common as black ties amid the wining and dining at the World Insurance Congress.

Although the official excuse for the jamboree was to celebrate the start of the city's fourth century, many U.S. delegates were more pre-occupied with the uncertain prospects of the next few months.

It is clear that 1982 will be a grim year for most U.S. property/casualty companies. The first major groups to report on the opening three months, Chubb and Continental, showed a steep increase in underwriting losses. Chubb's operating ratio deteriorated by five points.

Insurers have had to cope with heavy weather losses. Catastrophe losses in the first quarter rose by 290 per cent to a record $404m. The fourth and third quarters of 1981 were the worst underwriting periods in the industry's history.

Analysts at A.M. Best believe combined operating losses in 1982 are likely to be more than two and a half points higher than 1981's figure of 106 per cent.

Some of the most scathing comments at Philadelphia were reserved for companies that have been willing to accept an underwriting loss in the hope that this would be offset by high investment income on the premiums.

This practice could lead to disaster, according to Richard Haayen, president of the Allstate, who reckoned the stock property/casualty companies premium to surplus ratio would deteriorate from 1.5:1 to 4.7:1 if their bonds were valued at market rather than amortised values.

Their ability to withstand big shocks was therefore less impressive than might appear.

This subject is meat and drink to Maurice Greenberg, chief executive of the American International Group. He believes the so-called "total returns theory"—whereby insurers are prepared to balance underwriting losses with apparent gains on investment income —"is nothing more than a high-flown name for the 'instant fix' syndrome." As well as boosting investment income, high interest rates can have a devastating impact on bond portfolio values.

If the industry were to live off investment income, why should shareholders not invest in a business that permits an equivalent return while avoiding the risks of underwriting?

Mr Greenberg has a point. According to A. M. Best, the U.S. industry suffered realised and unrealised capital losses of $3bn last year. Add that to the underwriting loss of $6.4bn and you are not far short of the record $13.2bn of net investment income last year.

The property/casualty sector's overall surplus rose 3.7 per cent in 1981, the smallest increase in seven years.

Mr Greenberg suggests conditions are so bad the industry may be on the verge of a turn. He thinks the first quarter results may provide a salutary jolt to some insurers, and suggests that companies may be close to the point where their cash outgoings exceed their cash inflow, in which case high interest rates are of little help.

Add the chance of lower interest rates later in the year and you get, argues Mr Greenberg, a possible upturn in premium rates starting perhaps in the third quarter of this year.

That would not have any impact on the bottom line until well into 1983. Before that, if Mr Greenberg is right, there will be some blood on the wall. But at least the end may be in sight. And American International Group, at any rate, is still making an underwriting profit.



# WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

YESTERDAY

DIVIDEND & INTEREST PAYMENTS—
Bristol Corp. 3½pc Perp. Db. 1¾pc
Citicorp 45cts
Continental Illinois Corp. 50cts
*Elders IXL 7cts*
Laing Props. 2.75p
Mountleigh 1p
Treasury 15¼pc 1996 7⅝pc
Treasury 12pc 1987 6pc

TODAY

COMPANY MEETINGS—
American Trust, 4, Melville Crescent, Edinburgh, 12.15
*Clay (Richard), 6-16, Huntsworth Mews, NW, 12.00*
Federated Land, Winchester House, 100, Old Broad Street, EC, 12.00
Hewitt (J.) and Son (Fenton), North Stafford Hotel, Station Road, Stoke-on-Trent, 12.30
Molins, Plaisterers Hall, 1, London Wall, EC, 12.15
*Rentokil, Felcourt, East Grinstead, W. Sussex, 10.30*
BOARD MEETINGS—
Finals:
Foseco Minsep
French Kier
Midlands Marts
Roberts Adlard
Scottish Heritable Tst.
*Sound Diffusion*
Stanley (A. G.)
Tootal
Interim:
Rand Mines Properties
DIVIDEND & INTEREST PAYMENTS—
Anglo American Ind. Corp. 5.625pcPf. (new) 1.47461p
Banro Cons. Inds. 5pcPf. 2.5pc
Cambridge Electronic Inds. 2.75p
Celenese Mexicana SA 16½pc Six Mths. Notes 8¼pc
Dickie (James) (Drop-Forgings) 1.5p
Guernsey Atlantic Sems. (USM) 1p
Hewitt (J.) and Son (Fenton) 1.5p
Hungary 7½pc Stlg. Bds. 3¾pc
Leumi Intnl. Inv. Gtd. Fltg. Rate Notes C 1987 7⅝pc
Manders (Hldgs.) 4p
Reliance Knitwear 0.77p
Scottish Eastern Inv. Tst. 1.85p
Strong and Fisher (Hldgs.) 1.67p
Woolworth (F. W.) 3.034p

TOMORROW

COMPANY MEETINGS—
Bronx Engineering, Birmingham Chamber *of Industry and Commerce, 75, Harborne Road, Birmingham, 12.00*
CSC Inv. Tst., 44, Bloomsbury Square, WC, 10.30
Canning (W.), Royal Angus Hotel, Birmingham, 3.00
Fairclough Construction, Midland Hotel, Peter Street, Manchester, 11.30
General Accident, General Buildings, Perth, *Scotland, 11.30*
LASMO, Barbican Centre, Cinema 1, Barbican, EC, 11.00
Mackay (Hugh), Royal County Hall, Durham City, 12.00
Pittard Group, Manor Hotel, Yeovil, Somerset, 12.00
Scan Data, Chanctonbury House, Church Street, Storrington, W. Sussex, 12.00
*Trade Indemnity, Trade Indemnity House, 12-34, Great Eastern Street, EC, 12.00*
Yorkshire Chemicals, Black Bull Street, Leeds, 12.00
BOARD MEETINGS—
Finals:
Aberdeen Construction
Brixton Estate
Elbar Industrial
Hall (Matthew)
Henderson (P. C.)
Milletts Leisure Shops
*Mowlem (John)*
Nineteen Twenty-Eight Inv. Tst.
Peninsular & Oriental Steam Navigation
Sainsbury (J.)
Smith St. Aubyn
Tiger Oats and National Milling
TR North America Inv. Tst.
Interims:
Cowie (T.)
London and *Provincial Shop Centres*
DIVIDEND & INTEREST PAYMENTS—
American Medical Intnl. 13cts
Anglia Television 3.8p
Berwick Timpo 5½pcPf. 1.925pc
CA Cavendas Sociedad Finciera Fltg. Rate Deposit due 1986 $40.33
Christiana Bank OG Kreditkasse Fltg. Rate Subord. Cap. Notes 1991 $39 56
Intnl. Inv. Tst. 2.55p
Raine Inds. 0.1p
Rentokil 1.8p
*Trade Indemnity 4.55p*
Walker (James) Goldsmiths and Silversmiths 1p

THURSDAY MAY 6

COMPANY MEETINGS—
British Petroleum, The Barbican Centre, Silk Street, EC 11.30
Coral, Burleys Way, Leicester, 12.00
DRG, 1, Redcliffe Street, Bristol, 12.00
Jacobs (John I.), Winchester House, 100, Old Broad Street, EC, 12.00
KCA Drilling, Connaught Rooms, 61-65, Great Queen Street, WC, 12.00
Lex Service, 17, Great Cumberland Place, W 12.00
Montfort (Knitting Mills), Tudor Road, Leicester, 11.00
Nu Swift Inds., Old Swan Hotel, Harrogate, 12.00
Refuge Ass., Oxford Street, Manchester, 12.00
Rocedimond Inv. Tst., 41, Bishopsgate, EC, 12.00
Thurgar Bardex, Telford Way, Kettering, Northants, 11.30
Turner and Newall, National Computing Centre, Oxford Road, Manchester, 12.00
BOARD MEETINGS—
Finals:
*Coranakande Rubber Estates*
Garnar Booth
Gerrard and National
Hay (Norman)
Helical Bar
Marshall's Universal
Platignum
Pritchard Services
Sumner (Francis)
UDS
Interims:
Kwik Save Discount
MY Dart
Moss Engineering
Royal Bank of Scotland
Sungei Bahru Rubber Estates
Thames Inv. and Securities
Transvaal Consolidated Land and Exp.
DIVIDEND & INTEREST PAYMENTS—
Arndale Property Tst. Ln. 3¾pc
Associated British Foods Db. 3⅝pc
Brittanic Assce. 10.675p
Brixton Estate Db. 3¾pc
Brooke Bond Ln. 3½pc
Burton Gp. Ln. 3½pc
CSC Inv. Tst. 4.5p
*Cadbury Schweppes Ln. 4½pc*
Carpets Intnl. Db. 4¼pc. Do. Ln. 4¼pc
Courtaulds 6pcPf. 2.1pc. Do. Lns. 3¼pc 3¾pc
De Beers Ind. Corp. 76.68085p. Do. Dfd. 38.34042p
Brita Gp. Db. 5¼pc
Distillers Ln. 3⅝pc
*Eleco Hldgs. Db. 3¼pc*
Emmess Lighting 3p
Federated Land 2.585p
Harmony Gold 47.867049p
Hurst (Charles) Motors Db. 3½pc
Intnl. Bank for Reconstruction and Dev. 13½pcLn. 1986 6¾pc
Jourdan (Thomas) 3.5p
McLaughlin and Harvey 3.95p
*Metal Box Ln. 5¼pc*
Nordic Intnl. Finance BV Gtd. Fltg. Rate Notes 1991 $392.80
Reliable Props. 1.25p
Thurgar Bardex 0.6p
Tilling (Thomas) Ln. 4¼pc
Whitbread Ln. 3⅝pc

FRIDAY MAY 7

COMPANY MEETINGS—
Ault and Wiborg, 71, Standen Road, SW, 12.00
Banro Cons. Inds., Belfry Hotel, Wishaw, Sutton Coldfield, 12.00
Boddingtons Breweries, Midland Hotel, Peter Street, Manchester, 11.45
Clarke (T.), Savoy Hotel, Strand, WC, 12.00
*Eagle Star, 22, Arlington Street, SW, 12.00*
Jones (A.) St. James Northampton, 12.00
Midland Bank, Poultry, EC 12.00
Oliver (G.), Footwear, 98, Scudamore Road, Braunstone, Leicester, 12.00
Ransomes Sims and Jefferies, Nacton Works, Ipswich, 3.00
Scottish Television, Cowcaddens, Glasgow, 12.00
Silkolene Lubricants, Silkolene Oil Refinery, Belper Derbyshire 12.00
TI Raleigh Inds., 177, Lenton Boulevard, Nottingham, 12.45
Tricentrol, Great Eastern Hotel, Liverpool Street, EC, 12.00
BOARD MEETINGS—
Finals:
*Arrow Chemicals*
Northern Goldsmiths
Scottish Ontario Inv.
Yorklyde
Interims:
Gomme
Hepworth (J.)
Pochins
Wellco
DIVIDEND & INTEREST PAYMENTS—
A and G Security Electronics (USM) 0.75p
Agricultural Mortgage 12½pc Bds. (7.5/82) £6.5200
Anglo American Ind. Corp. 62.98784p
BBA Gp. Db. 5pc
BLMC Ln. 5¾pc
Blue Circle Inds. Db. 5½pc
British Vita 2.7p
*Bronx Engineering Hldgs. 0.79p*
Burroughs Corp. 65cts
Clarke (T.) 1.12p
Clay (Richard) 1p
De Beers Cons. Dfd. 13.4008p. Do. Dfd. (Br.) 13.4008p
De Beers Ind. Corp. 1.50623p
Fairview Estates 1.328p
Gresham Inds. 13.5cts
*IMI 2.5p*
Maynards 3.125p
Needlers 4p
Paterson Zochonis 1.33p
Refuge Assurance 10p
*Swedish Match SKr 7. Do. B SKr 7*
Thorn EMI Inds. 2½ 3¼ 3¼ 4¼pc

SATURDAY MAY 8

DIVIDEND & INTEREST PAYMENTS—
Church and Co. 6p
Guest Keen and Nettlefolds 4p
Tioxide Gp. Ln. 5¼pc

CREDITS

## Flurry of new business

A FLURRY of new business was reported in the Eurocredit market last week, but with Latin America in a state of virtual financial quarantine as a result of the Falklands crisis, most of it was concentrated on the safer risks of Europe and Australia.

Austria is returning to the market for the second time since last autumn. Once again it is raising $400m at a flat margin of ⅜ per cent, but this time the maturity has been reduced to eight years from ten and the fees are said to be slightly higher.

This slight upward shift in conditions reflects the state of the market more than anything else but the terms also demonstrate that Austria, which still has rarity value in the market, is one of the few borrowers in Europe that can obtain a flat ⅜ margin on a medium-term loan without any accompanying sweeteners.

Creditanstalt-Bankverein and the three other leading Austrian banks are now in the process of forming a lead management group to handle the borrowing.

A fine margin of ⅜ per cent has also been achieved on a 10-year $100m credit for Danish Oil and Gas, led by Hambros Bank, but this is not to say that spreads at these levels in Europe leave all participating banks happy.

Greece's latest loan has met with a resounding success and is being increased for a second time to $550m from $540m. Banks will doubtless be using Greece as an example of why borrowers should opt for generosity in awarding a mandate. After much discussion it chose to ignore offers embodying a ⅜ element and settle for a ½ per cent throughout.

Last week's new Australian deal, by contrast, involves a margin of only ⅜ per cent. But it is a short-term, three-year bridging finance for Aussat to finance the Australian national satellite system.

Through Manufacturers Hanover, Aussat is raising a maximum of $385m, though the total could be reduced to as little as $193m if the borrower obtains authorisation to raise some of the funds in domestic currency.

Elsewhere, Italy is back in the sterling acceptance credit market with a £200m, five-year acceptance facility bearing a commission of ¼ for its electric utility, ENEL, led by S. G. Warburg and N. M. Rothschild, while in Eastern Europe there were signs of finance beginning to flow again for Yugoslavia.

German banks reportedly agreed last week to raise a DM 150m, seven-year loan for the National Bank of Yugoslavia with a margin of 1½ per cent over Libor. The amount is rather lower than the DM 200m first mooted but the deal is still intended to encourage other lenders back into this market.

It is not clear at this stage whether U.S. banks, who have come under pressure from their government not to condemn Yugoslavia to the same fate as other East European countries, will respond to this signal and resume medium-term lending.

At the moment little progress appears to be being made on the question of Poland's 1982 debt rescheduling despite a visit to London last week of Mr Jan Woloszyn, Vice-President of Bank Handlowy, Poland's foreign trade bank.

Lobbying of the City will continue this week with a visit from the Bank's President, Mr Marian Minkiewicz, but banks are taking a non-commital stance in the absence of separate action by Western governments to reschedule official debt falling due this year.

As nervousness over Latin America continued unabated in the wake of the Falkland crisis there were some signs that foreign banks were starting to share out interest received from Argentina with British banks who have not been paid.

But Venezuela was drawn into the problem when a loan for Banco Industrial de Venezuela was cut to $170m from $200m after British banks declined to sign at the last minute and at least two other loans for Venezuelan borowers were put on ice.

Portugal's Airline TAP is raising $135m through National Westminster and Banco Totta y Acores to finance the purchase of seven Boeing planes.

An initial 12 month bridging facility with a margin of ⅜ per cent will be converted later into a long-term debt funding behind a lease arrangement. This will bear a margin of ⅜ for the first six years rising to ⅜ per cent thereafter.

**Peter Montagnon**

INTERNATIONAL BONDS

## Indigestion again after yet another flood of paper

THE EURODOLLAR bond market turned sour last week in the wake of yet another flood of new paper.

The week started with bright promise. The latest U.S. inflation statistics were favourable; the M1 money supply figures proved a pleasant surprise; and the unreasonably high dollar interest rates looked likely to be heading downward.

But this is an essentially undisciplined market and when a "window" opens the borrowers waste little time. A total of $1.3bn of new fixed-interest issues were launched last week, including the $500m World Bank jumbo. Before long secondary market traders started complaining about "indigestion" and the new issue managers started voicing regret at the flood they had caused.

To compound matters, President Reagan's failure to settle the U.S. budget debate left the Eurobond market with a case of nerves. If that were not enough, the shadow of the Falklands crisis last week appeared to be looming larger than ever.

By Friday morning a rush was on to unload bond inventories ahead of the long weekend in London. More than $750m of new bonds are said to remain unsold and some of the new issues are not at all well priced.

There were several aggressively priced deals about, but none was as tight as Du Pont's 13¾ per cent $200m adjustable coupon issue through Credit Suisse First Boston. Du Pont is undoubtedly a great name in the Euromarket, but as CSFB's co-managers noted, even a great name cannot get away with a 13¾ per cent coupon in a deteriorating market. Little more than a quarter of the issue was sold by Friday and the pre-market bid price was 97¾ against par.

So last week was not a good one for CSFB. The week began with the exodus of several CSFB Euromarket executives and ended with co-managers on the Du Pont deal grumbling about a "mispriced issue."

Why did the co-managers sign on to the Du Pont deal if they didn't like it? The answer is that Du Pont is the sort of client few houses wish to turn away. Under normal circumstances it is a great seller, particularly among Swiss investors.

Another deal which did not come off as intended was the $75m I. C. Industries bond-and-warrant experiment launched by Merrill Lynch and Paribas. The idea was to separate the bonds and warrants into two deals, thus avoiding the practice whereby issues are bought with warrants and the straight bonds are then dumped while the warrants flourish as speculative tools.

The first tranche was a 14 per cent seven-year discount bond priced at 92½ to yield 15.83 per cent. The second portion consisted of 225,000 warrants to purchase either zero coupon bonds or equity. For a period of 2½ years warrant holders can buy a zero coupon bond priced at 20.2 and maturing in 1994. For a period of four years the same warrants allow for the purchase of I.C. Industries shares at $50 each (the current share price is $29½).

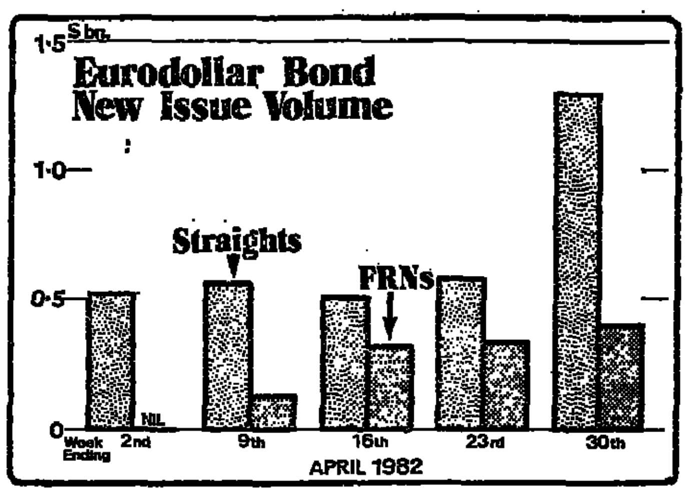
Full marks for a creative warrant portion. Unfortunately, the managers didn't deign to sell the bonds and warrants separately. As a result a number of them sold the bonds and warrants as a package and then the bonds were dumped back on to the market. This caused the ex-warrant price of the bonds to fall to around 90, providing a yield of 16¼ per cent. So much for the experiment.

In Continental bond markets last week prices rose by around ½ point in both the Euro D-Mark and Swiss franc sectors. Iceland came to the D-Mark sector over the weekend with a DM 75m 10-year issue at 9½ per cent through WestLB.

Today will see a DM 100m issue for Banrural, Mexico's agricultural bank, through DG Bank. Given Mexico's current status in the market, the bonds could bear a coupon between 10½ and 11 per cent.

In the samurai bond market —the Japanese sector for foreign borrowers—the EEC is making its debut with a Y20bn issue through Daiwa Securities. Expected this summer is a Y5bn private placing for Fujian Investment Corporation, the first such deal for a Chinese province and the second Chinese borrower in this market.

**Alan Friedman**




JAPANESE BANKS

## Rapid growth in London

WITH A minimum of publicity, the 25 or so Japanese banks in London have quietly emerged as the single biggest force in the London markets over the last couple of months and now control more money than either the London branches of the U.S. banks or the London clearing banks.

The balance sheet growth of London branches of the Japanese banks has been dramatic over the last two years. In March 1980 they were half the size of the U.S. banks in London and accounted for just over a fifth of the total assets of London's 355-strong foreign banking community.

Since then they have nearly trebled the size of their balance sheets to £85.6bn during a period when the overall UK market has grown by two thirds to £464.2bn. They now account for close to a third of the assets controlled by London's foreign banking community.

The scale of the recent growth of the Japanese banks in London has been spectacular. There are more than three times as many U.S. banks in the City as Japanese banks, and as a group the Japanese banks only employ 1,300 people — roughly as many as are employed in the London operations of just one major U.S. money centre bank.

Bankers find it hard to pinpoint the reasons for this rapid growth and Japanese bankers offer little guidance.

As a group they have become much more active in the syndicated credit markets over the last two years and are now a key factor in determining the success of new credits.

There have been suggestions that Japanese banks have benefited from the moves of the oil exporting countries to diversify their deposits, which might partly explain their growth.

However, there are other factors at work, and one of the most significant must be the international growth of the Japanese banks generally. There are almost as many Japanese banks, as U.S. banks, in the world's top 500 banks, and until recently they have been relatively slow to move into international banking. In addition, they appear to be under pressure to expand international earnings at a time when domestic profits margins are being squeezed.

Finally, there are signs that over the last couple of years the Japanese authorities have loosened the tight controls on the expansion of Japanese banks overseas.

There have been sharp surges and then retreats in the international markets by the Japanese banks before. For a time they would chase business and force down margins and then almost as quickly withdraw from the market.

However, there are signs that this time their presence is more permanent.

**William Hall**

### CURRENT INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Lead manager | Offer yield % |
|---|---|---|---|---|---|---|---|
| **U.S. DOLLARS** | | | | | | | |
| Bancomer†‡ | 60 | 1990 | 6 | 5½φ | 100 | Orion Royal Bank | 5.500φ |
| Swed. Export Credit‡ | 100 | 1990 | 8 | 14½ | 99½ | Goldman Sachs, CSFB, Morgan Stanley | 14.860 |
| Banque Indosuez‡ | 100 | 1987 | 7 | 15 | 100 | CSFB, Banque Indosuez | 15.000 |
| I.C. Industries‡ | 75 | 1989 | 7 | 14 | 92½ | Merrill Lynch, Paribas | 15.849 |
| Beneficial Fin.¶ | 50 | 1987 | 5 | 14¼ | * | Morgan Stanley | * |
| World Bank‡ | 500 | 1987 | 5 | 14½ | 99¾ | Deutsche Bank | 14.490 |
| American Medical§ | 25 | 1997 | 15 | * | 100 | SBCI | * |
| Du Pont‡ | 200 | 1997 | 15 | 13¾ | 100 | CSFB | 13.750 |
| B.H.P.‡ | 150 | 1989 | 7 | 14¾ | 100 | Deutsche Bank | 14.750 |
| Shell Canad ‡ | 125 | 1992 | 10 | 14½ | 99¾ | Morgan Stanley | 14.473 |
| Indonesia†‡ | 200 | 1992 | 10 | 5¼φ | 100 | SBCI | 5.250φ |
| Kansallis-Osake-Pankki†‡ | 50 | 1992 | 10 | 5¼φ | 100 | Nordic Bank, CSFB, Kansallis Intnl. | 5.500φ |
| Ireland†‡ | 75 | 1989 | 7 | 5¼φ | 100 | Manufctrs. Hanover | 5.250φ |
| **CANADIAN DOLLARS** | | | | | | | |
| Hudson's Bay Co.‡ | 40 | 1989 | 7 | 17 | 100 | Morgan Stanley | 17.000 |
| Hydro Quebec‡ | 50 | 1989 | 7 | 16½ | 100 | Merrill Lynch | 16.500 |
| C.I.B.C. | 50 | 1987 | 5 | 16½ | * | Hambros, C.I.B.C. | * |
| **D-MARKS** | | | | | | | |
| Konishiroku Photo§‡ | 50 | 1988 | 6¼ | 6½ | 100 | WestLB | 6.750 |
| Philip Morris | 100 | 1990 | 8 | 8½ | * | Dresdner Bank | * |
| World Bank‡ | 200 | 1992 | 10 | 8½ | 100 | Deutsche Bank | 8.500 |
| **SWISS FRANCS** | | | | | | | |
| Council of Europe‡ | 60 | 1992 | — | 7½ | 100 | Banca del Gottardo | 7.250 |
| Kowa Co.**‡ | 10 | 1987 | — | 7 | 100 | Banco del Gottardo | 7.000 |
| Honshu Paper**‡ | 50 | 1987 | — | 7 | 100 | CS | 7.000 |
| EIB‡ | 100 | 1992 | — | 7 | 100½ | CS | 6.965 |
| Air Canada‡ | 100 | 1992 | — | 6½ | 99½ | SBC | 6.320 |
| Taiyo Yuden§** | 60 | 1987 | — | * | 100 | CS | * |
| Asian Devt. Bank | 100 | 1992 | — | 7½ | * | UBS | * |
| C.E.P.M.E.**‡ | 50 | 1987 | — | 7 | 100 | C.C.F. (Switz.) | 7.000 |
| **KUWAITI DINARS** | | | | | | | |
| BNP | 7 | 1989 | 5 | 12¾ | * | KIC | * |
| **YEN** | | | | | | | |
| IRI**‡ | 10bn | 1994 | 12 | 8½ | 99½ | Ind. Bank of Japan | 8.568 |
| EEC | 20bn | 1992 | 10 | * | * | Daiwa Secs. | * |

* Not yet priced. ‡ Final terms. † Floating rate note. φ Minimum. § Convertible. ** Placement. ¶ With warrants. Note: Yields are calculated on AIBD basis.

## U.S. BONDS

# Activity slows to a trickle

WITH REAL interest rates at extraordinary levels and the economy stagnating, everyone would like to be bullish of U.S. bonds at present. But there is just too much uncertainty around for a sustained rally to get under way. Fund managers are just as frightened of being out of the market as they are of being fully invested. Accordingly trading activity has slowed down to a trickle in the past few days in the face of a barrage of news—mostly bad.

The breakdown of the budget talks has only had a modest impact on prices, but it does appear to leave the Federal Reserve Board with even less room for manoeuvre with the monetary aggregates than it had

U.S. INTEREST RATES (%)

| | Week to April 23 | Week to April 16 |
|---|---|---|
| Fed Funds | 15.04 | 15.30 |
| 3-month Treas. bills | 12.34 | 12.84 |
| 3-month CD | 14.30 | 14.75 |
| 30-year Treas. Bond | 13.32 | 13.29 |
| AAA Util. | 15.75 | 15.75 |
| AA Ind. | 16.00 | 15.13 |

Source: Salomon Bros.

already. Last Friday's money supply figures, which showed a $1.9bn rise in M1 during the week ending April 21, were broadly in line with market expectations, and left this measure of the basic money supply well above the Fed's target.

Analysts suggested there were signs that the authorities had been moderately tightening the pressure on bank reserves in the past couple of weeks. Further upward pressure on money market rates is coming from the continued heavy demand for short-term borrowings from the company sector. Commercial and industrial loans on the books of the major banks rose $1.54bn in the week to April 21, bringing the total to just over $200bn.

So there appear to be some sizeable obstacles to any sharp fall in short-term money rates during the coming weeks. The picture has been clouded in the last few days, with the Federal funds rate moving erratically from an average of under 15 per cent in the week to last Wednesday, up to around 16 per cent up by the weekend before easing down again yesterday morning.

The current mood of resigned uncertainty might tempt those who like to take a contrary opinion to adopt a bolder stance. If so, the U.S. Treasury will be happy to accomodate them. The schedule of new debt issues coming up on Wall Street would be enough even to make the UK Government broker lick his lips. Indeed, the flood of Treasury issues may be another reason for the low level of activity in the market lately, as investors have been preparing their positions ahead of the quarterly refunding operations.

Details of this were announced last week, and turned out to be on the high side of recent market expectations, amounting in total to $9.25bn. Today, the Treasury will auction $5.25bn of new three-year notes in minimum amounts of $5,000. Tomorrow it will follow suit with an offering of $4bn of new 10-year notes in minimum amounts of $1,000. This is far and away the biggest ever Treasury auction of such a maturity. The two issues were being offered by securities dealers on a "when issued" basis at yields of just under 14 per cent.

In addition to all this, the Treasury yesterday held its weekly bill auction, amounting to $9.4bn in three- and six-month notes. Given this demand on the part of Uncle Sam, it is no surprise that new debt issues from the company sector have all but disappeared for the moment.

**Richard Lambert**

## SOUTH AMERICAN LOSSES MOUNT

# VW suffers steep slide in profit

BY KEVIN DONE IN FRANKFURT

VOLKSWAGEN, West Germany's leading motor group, suffered a drop of 58 per cent in after-tax profits last year to DM 136m ($58.3m), the second successive year in which the group's earnings have been under heavy pressure.

Profits were also halved in 1980 for 1981 VW has been forced to cut its dividend to DM 5 per share, compared with the DM 10 paid in 1979.

Volkswagen vehicle production worldwide dropped by 12.8 per cent last year to 2,245,611 units, while worldwide sales to dealer organisations fell by 8.6 per cent to 2,279,040. Group turnover showed a rise of 13.8 per cent to DM 37.9bn with foreign sales accounting for a share of 68.2 per cent.

The group's profitability has been hit chiefly by the collapse of the automobile markets in Brazil and Argentina last year and the mounting losses of VW's office equipment subsidiary, Triumph-Adler, which ran up a deficit of DM 197m last year compared with a loss of DM 79.1m in 1980.

In Brazil, where Volkswagen controls 45.9 per cent of the car market and 35.5 per cent of the commercial vehicle market, the group's main manufacturing subsidiary, VW do Brasil, suffered a drop of 42.6 per cent in production to 295,303 units and a fall of 35.8 per cent in sales to 313,266 vehicles.

Volkswagen do Brasil's loss last year jumped to DM 327m from a deficit of DM 56m in 1980. The group's Brazilian truck subsidiary, Volkswagen Caminhoes—formerly Chrysler Motors do Brazil — ran up a deficit of DM 130m against DM 68m in 1980.

In Argentina, where VW also bought Chrysler's loss-making subsidiary Chrysler Fevre Argentina in 1980, the German group suffered losses of DM 82m. In the U.S., where VW's local vehicle production slumped by 9.3 per cent in 1981 to 204,990 units, VW of America managed a nominal profit of DM 1.2m.

Despite the troubles afflicting some of its major subsidiaries, VW's domestic West German operations have shown a surprising resilience in the face of recession in both the domestic and important export markets.

In the first quarter of 1982 the VW parent company managed to increase after-tax profits by 32 per cent to DM 54m from DM 41m in the corresponding period of 1981. In the same period group turnover rose by 17 per cent to just under DM 10bn.

Vehicle deliveries to customers in the first three months of 1982 fell by 5 per cent to 554,000 units, chiefly as a result of a drop of 37 per cent in car sales in the U.S. to only 53,000 units.

In the domestic market VW/Audi new car deliveries fell by 5 per cent to 185,000 compared with an overall fall of 8 per cent in West German new car registrations. VW has suffered a particularly sharp drop in domestic commercial vehicle sales of nearly 30 per cent and further short-time working will be unavoidable later this year.

Volkswagen is still achieving strong growth in export sales to major European volume car markets, however, particularly France, Italy and the UK. European car exports jumped by 16 per cent last year to more than 600,000 and sales rose by a further 9 per cent in the first quarter to 161,500.

Dr Carl Hahn, who took over as VW chief executive from Herr Toni Schmücker at the beginning of the year, said that for the whole of 1982 the group expected to repeat last year's sales level of 2.33m units.

Volkswagen, which is in the midst of an ambitious three-year DM 13bn capital investment programme, is aiming to increase capital spending this year to more than DM 5m from last year's level of DM 4.85bn.

VW's TRACK RECORD

| | Sales DM | Net profits DM |
|---|---|---|
| 1976 | 21.5bn | 1.0bn |
| 1977 | 24.1bn | 419m |
| 1978 | 26.7bn | 574m |
| 1979 | 30.7bn | 667m |
| 1980 | 33.3bn | 321m |
| 1981 | 37.9bn | 136m |

# Triumph Adler falls deeper into the red

VOLKSWAGEN'S ill-fated diversification into electronics, with the DM667m take-over of Triumph-Adler, the office equipment group in 1979/80 and the $117m acquisition of Pertec in the U.S. in 1979, is costing it dearly.

Despite an 18.5 per cent increase in sales last year to DM1.95bn ($836m), Triumph-Adler suffered a 150 per cent increase in losses to DM197m, compared with the deficit of DM79.1m in 1980.

VW's financial burden from T-A has been compounded by the need to write off loans to the company totalling DM250m. In addition it has agreed to waive interest payments for two years on further loans of DM203m. VW has also lopped DM400m off the book value of T-A in the VW group accounts.

In its annual report VW admits that "a considerable effort will need to be made over the next few years to restore the Triumph-Adler group to health." VW diversified into the electronics industry in the search for new profitable activities to offset the cyclical fortunes of the motor industry.

By the end of last year 17.4 per cent of Triumph-Adler's workforce had been made redundant cutting the number of employees to 14,143 from 17,115 a year earlier.

The domestic workforce was cut by 1,232 as T-A belatedly pushed through the switch to electronic products and gave up the assembly of mechanical components.

The workforce abroad was cut by 1,740 as a result of closures and the sale of whole company sections, chiefly on the part of Pertec and in the Netherlands.

Around 32.8 per cent of T-A's turnover was derived from foreign markets last year. Some 35.7 per cent of sales came from business machines, 14.1 per cent from computer systems, and 14.9 per cent from word processors/copiers.

# Record loss at Italsider

BY RUPERT CORNWELL IN ROME

ITALSIDER, the state-owned Italian steel concern controlled by Finsider of the IRI conglomerate, last year reported a record net loss of L1,698bn ($1.3bn), more than double the deficit of 1980.

However, the company yesterday declared that there were some signs of a recovery in the early months of this year.

Actual operating losses during the year reached L351bn, but these were dwarfed by the L1,447bn of financial charges stemming from Italsider's huge outstanding debt, a sum equal to almost 36 per cent of turnover.

## INTERNATIONAL APPOINTMENTS

### Low & Bonar senior post in North America

● Mr E. G. Campbell has been appointed regional director, North America, of LOW AND BONAR, which operates internationally in packaging, engineering, textiles and travel. Mr Campbell takes responsibility for all group operations in Canada and the U.S., as well as for new business development in the region. He was previously president of Bonar Packaging, Canada.

● Mr Donald R. MacPherson has been named president of the COOPER GROUP, succeeding Mr C. W. Gilchrist who has retired. The Cooper Group, a division of Cooper Industries Inc, is a worldwide manufacturer of hand tools under the Boker, Crescent, Lufkin, Nicholson, Plumb, Weller, Wiss and Xcelite brands. The group has a UK plant at Washington, Tyne and Wear.

● THE HONGKONG AND SHANGHAI BANKING CORPORATION has made board and senior management appointments which will take place in the coming months. Mr T. Walsh, at present general manager Hong Kong, will be moving to London to succeed Mr P. E. Hutson, executive director, who will be retiring on October 31. Mr. W. Purves, general manager international, will assume overall responsibility for international and Hong Kong operations in August. Mr I. H. Macdonald, executive director based in New York, will be retiring in early 1983 and will be succeeded by Mr A. R. Petrie. Mr Purves, Mr Welsh and Mr Petrie will be joining the board of The Hongkong and Shanghai Banking Corporation as executive directors on assuming their new appointments.

Mr P. J. Wrangham, at present deputy general manager, will succeed Mr T. Welsh as general manager Hong Kong in early August.

Mr R. H. L. Bacon, Mr P. Fletcher and Mr R. W. Campbell are being appointed general managers international later in the year. At present, Mr Bacon is chief executive officer, Singapore, Mr Fletcher has until recently been managing director of The Saudi British Bank, and Mr Campbell has been chief executive officer of Mercantile Bank in India. Mr J. A. P. Hill, at present assistant general manager international, will be moving to Singapore in November as chief excutive officer. Mr K. W. Barker has succeeded Mr Campbell as chief excutive officer India, and Mr J. Paton has succeeded Mr Fletcher in Saudi Arabia. Mr M. J. Calvert, current chief executive officer Malaysia, is being succeeded by Mr D. G. Jaques, and will be appointed chairman's representative in group head office and assigned special duties in international operations.

● Mr George M. Smith has been promoted to director of general engineering for PROCON INTERNATIONAL'S Houston operations office. The company is a subsidiary of UOP Inc., one of The Signal Companies.

● Mr Robert K. Wilmouth has become president and chief executive officer of the National Futures Association (NFA). Mr Wilmouth, currently president of the Chicago Board of Trade, will relinquish his responsibilities at the Chicago exchange as soon as the reauthorisation of the Commodity Futures Trading Commission is completed and the NFA is formally established.

● Mr Emmett Johnson has been appointed vice president of operations, and Mr Jerald H. Mortenson has been appointed vice president of finance and administration at FABRI-TEK.

● Mr Christopher Dupont Roosevelt has been elected to the board of directors of PHOTOGRAPHIC SCIENCES CORPORATION, Rochester, New York and to the board of its international company, headquartered in London. Mr Roosevelt is the president of the Oceanic Society, an environmental organisation. He is a director of the Eleanor Roosevelt Institute and a trustee of the New York Botanical Gardens.

● Mr Keith Fryer, formerly marketing manager of Glass Reinforced Concrete (GRC), has been appointed general manager of a new company—GRC (SAUDI ARABIA) in Riyadh. The company is a joint venture between the Pilkington Company UK (MABCO) Prefabricated Building Company, a precast concrete and construction enterprise in Saudi Arabia, and Fahd Altobaishi and Company, a Saudi Arabian commercial concern.

● Mr R. J. Carter, formerly general manager aluminium division, BROKEN HILL PROPRIETARY CO., has become general manager, resource minerals division. He continues to be responsible for BHP's aluminium interests.

● GLOBE INTERNATIONAL has been formed in Bermuda as a subsidiary of Globe Investment Trust with Mr John P. Clay chairman and Mr Francis Finlay president and chief executive. Mr Finlay was vice-president, Morgan Guaranty Trust Company.

Globe International has formed Globe Finlay Incorporated, New York, of which Mr Finlay will also be president and chief executive, to specialise in international management for U.S. accounts. Mr Ralph di Fiore, director Retirement Funds Management, McDonnell Douglas Corporation, St. Louis, Missouri, has been appointed senior vice-president of Globe Finlay Incorporated.

● Mr Richard Noha has been appointed director of marketing of HOKE INCORPORATED U.S. Mr Marc Schlechter has been appointed director of international sales. He will be responsible for the Hoke international marketing organisation in Europe, England, Canada, Africa, Latin America, the Far East and the Middle East. He was chief operating officer for the Merican-Curtis Group, London. He will be based at Hoke headquarters in Cresskill, New Jersey.

● Mr P G Dudeney, managing director of VITAFOAM NIGERIA, has indicated his wish to retire early in 1983. Mr S. O. Bolarinde will succeed Mr Dudeney as managing director. Mr Bolarinde is technical director of VNL.

● Mr Joseph Trimble has been promoted to senior vice president, law, for FLUOR CORPORATION.

● Mr Martin D. Payson has been elected executive vice president and general counsel of WARNER COMMUNICATIONS INCORPORATED, New York. Mr Edwin W. Hamowy has been elected vice president, strategic planning.

● Mr Steven P. Mella, has been appointed division vice president and assistant to the president of AMF K.K. in Japan.

● Mr Alfred W. Martinelli has been elected president of THE PENN CENTRAL CORPORATION, New York, and also president and chief executive officer, from May 20. He succeeds Mr Richard A. Voell, who resigned last month. Mr Richard Dicker who has been chairman and chief executive officer of Penn Central since the company's reorganisation in October 1978, will serve until the annual shareholders' meeting on May 20 and, thereafter, will continue as chairman of the board. Mr Martinelli has been president and chief executive officer of Penn Central Energy Group, Incorporated, a wholly-owned subsidiary, and currently serves as a member of Pen Central's board of directors.

● Mr Thomas C. Cross has been apointed director of marketing for the M. W. KELLOGG COMPANY, Houston.



# FT INTERNATIONAL BOND SERVICE

| U.S. DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Aetna Life 15 88/97 | 150 | 101⅜ | 101⅞ | 0 | −0⅛ | 14.42 |
| Amax Int. Fin. 16¼ 92 | 75 | 102⅜ | 102⅞ | +0⅛ | +0⅛ | 15.69 |
| Anheuser-Busch 16½ 88 | 100 | 103⅝ | 104⅛ | −0⅛ | 0 | 15.44 |
| APS Fin. Co. 16¾ 89 | 75 | 103⅜ | 103⅞ | 0 | −0⅛ | 15.33 |
| Armco O/S Fin. 15⅛ 86 | 50 | 100⅝ | 101⅛ | +0⅛ | +0⅛ | 15.02 |
| ATT 14⅝ 89 | 400 | 101⅜ | 101⅞ | 0 | −0⅛ | 13.85 |
| Baker Int. Fin. 0.0 92 | 225 | 26½ | 27 | −0⅛ | +1 | 14.37 |
| Burroughs Int. 15¾ 88 | 50 | 103⅜ | 104⅛ | +0⅛ | +0⅛ | 14.66 |
| Canadair 15½ 87 | 150 | 101¼ | 102¼ | 0 | 0 | 14.86 |
| Can. Nat. Rail 14⅝ 91 | 100 | 101¼ | 102¼ | 0 | 0 | 14.86 |
| Carolina Power 16½ 89 | 60 | 98⅞ | 99⅜ | −0⅛ | −0⅛ | 14.75 |
| Caterpillar Fin. 16½ 86 | 100 | 104⅝ | 105⅛ | −0⅛ | −0½ | 15.25 |
| CIBC 16 87 | 100 | 102⅝ | 103⅛ | −0⅛ | −0⅛ | 15.47 |
| Citicorp O/S 15 84/92 | 100 | 103¼ | 103¾ | −0⅛ | −0⅛ | 14.90 |
| Citicorp O/S 15½ 85/97 | 125 | 99⅜ | 99⅞ | −0⅛ | −1¼ | 15.21 |
| CNA 15⅞ 97 | 75 | 101¼ | 101¾ | 0 | 0 | 14.75 |
| Con. Illinois 15⅜ 89 | 100 | 100 | 100½ | −0⅛ | 0 | 15.81 |
| Duke Pwr. O/S 15½ 89 | 60 | 103⅛ | 103⅝ | 0 | +0¼ | 14.89 |
| Dupont O/E 14½ 88 | 400 | 100¼ | 100¾ | 0 | −0⅛ | 15.37 |
| [illegible] | [illegible] | 100¼ | 100¾ | 0 | 0 | 14.32 |
| Dupont O/S Cap. 0.0 90 | 300 | 35⅞ | 36⅛ | 0 | +0⅞ | 13.98 |
| ECSC 14⅜ 87 | 50 | 99⅜ | 99⅞ | +0⅛ | +0⅛ | 14.84 |
| EIB 15½ 89 | 150 | 100⅞ | 101⅜ | −0⅛ | −0⅛ | 15.20 |
| Gen. Elec. Credit 0.0 92 | 400 | 29 | 29½ | 0 | +1 | 13.37 |
| Gen. Elec. Credit 0.0 93 | 400 | 25½ | 26 | +0½ | +0⅛ | 13.39 |
| GMAC O/S Fin. 16 88 | 150 | 102¼ | 102¾ | +0⅛ | +0⅛ | 15.27 |
| GMAC O/S 15⅜ 85/97 | 100 | 98⅝ | 99⅛ | +0⅛ | 0 | 15.72 |
| Gulf Canada Ltd 14⅜ 92 | 100 | 98¾ | 99¼ | −0⅛ | 0 | 14.93 |
| Gulf Oil 14¼ 94 | 175 | 98 | 98½ | −0⅛ | 0 | 14.55 |
| Gulf Oil Fin. 0.0 92 | 300 | 28 | 28½ | −0⅛ | +0⅛ | 13.71 |
| Gulf States O/S 16 90 | 60 | 99½ | 100 | −0⅛ | −0⅛ | 16.05 |
| Int.-Am. Dv. Bk. 15⅞ 87 | 55 | 99¼ | 99¾ | −0⅛ | −0⅛ | 15.20 |
| Japan Airlines 15¼ 88 | 50 | 101¼ | 101¾ | −0⅛ | −0⅛ | 14.81 |
| Japan Dev. Bk. 15½ 87 | 50 | 102½ | 103 | 0 | −0⅛ | 14.61 |
| Nat. West 14⅜ 91 | 100 | 100½ | 101 | +0½ | −0⅛ | 14.55 |
| New Brunswick 16¼ 89 | 75 | 104⅝ | 105⅛ | 0 | +0⅞ | 15.02 |
| New & Lab. Hv. 17¼ 89 | 75 | 106¼ | 106¾ | +0⅛ | −0⅛ | 15.65 |
| OKG 15⅜ 85/97 | 50 | 98¼ | 98¾ | 0 | −0⅛ | 16.22 |
| Ontario Hyd. 16 91 (N) | 200 | 105⅝ | 106⅛ | +0⅛ | +0¼ | 14.76 |
| Pac. Gas & El. 15⅜ 89 | 80 | 102⅝ | 103⅛ | +0⅛ | −0⅛ | 14.99 |
| Pac. Gas & El. 15½ 89 | 45 | 103 | 103½ | 0 | 0 | 14.70 |
| J. C. Penney Gl. 0.0 94 | 350 | 21⅜ | 21⅞ | 0 | +0⅛ | 13.86 |
| Quebec Prov. 15¼ 89 | 150 | 100½ | 101 | 0 | +0¼ | 15.02 |
| R.J. Rynlds. O/S 0.0 92 | 400 | 28 | 28¼ | 0 | +1⅜ | 13.81 |
| Saskatchewan 16¼ 88 | 100 | 104¼ | 104¾ | 0 | +0⅛ | 15.05 |
| Saskatchewan 16 89 | 125 | 103⅞ | 104⅜ | −0⅛ | +0¼ | 14.97 |
| Spain 15⅜ 87 | 100 | 98⅝ | 99⅛ | 0 | −0⅛ | 16.07 |
| Statsforetag 15⅜ 87 | 50 | 99⅞ | 100⅜ | 0 | −0⅛ | 15.64 |
| Sweden 14½ 88 | 150 | 95⅜ | 95⅞ | −0⅛ | −0½ | 15.54 |
| Sw. Ex. Cr. 16½ 84/93 | 75 | 101⅝ | 102⅛ | +0¼ | −0⅛ | 15.41 |
| Swed. Ex. Cred. 15¼ 89 | 100 | 99⅜ | 99⅞ | +0⅛ | +0⅛ | 15.31 |
| Swed. Ex. Cred. 0.0 94 | 200 | 20 | 20½ | 0 | 0 | 14.41 |
| Texas Eastern 15⅞ 88 | 75 | 103 | 103½ | +0⅛ | −0⅛ | 15.00 |
| Transcanada 16 89 | 100 | 101⅞ | 102⅜ | 0 | −0⅛ | 15.44 |
| Wells Fargo I. F. 15 87 | 75 | 100⅝ | 101⅛ | −0⅛ | −0⅛ | 14.70 |
| WMC Fin. 15½ 88 | 50 | 98¾ | 99¼ | 0 | −0⅛ | 15.69 |
| World Bank 15¼ 88 | 250 | 100⅞ | 101⅜ | −0⅛ | −0⅛ | 14.91 |

Average price changes... On day 0 on week +0⅛

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Australia 9⅜ 91 | 300 | 104⅞ | 105⅜ | −0⅛ | +0⅛ | 8.61 |
| Australia 9⅜ 91 | 200 | 104⅝ | 105⅛ | 0 | +0⅛ | 8.57 |
| Comp. Tel. Esp. 10⅛ 92 | 100 | 100⅝ | 101⅛ | +0⅛ | +0⅛ | 10.34 |
| Denmark 10 88 | 100 | 102⅝ | 103⅛ | 0 | +0⅛ | 9.30 |
| Denmark 10⅛ 92 | 100 | 103⅜ | 103⅞ | 0 | +1¼ | 9.56 |
| EDF 9⅞ 92 | 100 | 102¼ | 102¾ | 0 | +0½ | 9.49 |
| EEC 10⅛ 93 | 100 | 104⅝ | 105⅛ | +0⅛ | +0⅛ | 9.40 |
| EEC 9⅜ 94 | 200 | 103¼ | 103¾ | −0⅛ | +0⅛ | 9.25 |
| EIB 9⅜ 88 | 60 | 102⅝ | 103⅛ | 0 | +0⅛ | 9.10 |
| Inter-American 10¼ 91 | 100 | 105⅝ | 106⅛ | +0⅛ | +0⅛ | 9.26 |
| Ireland 10⅛ 86 | 100 | 101⅞ | 102⅜ | −0⅛ | −1 | 9.47 |
| Mexico 11 88 | 100 | 102⅞ | 103⅜ | +0⅛ | +0⅛ | 10.27 |
| Mt. Bk. Dnmk. 10½ 91 | 100 | 102⅞ | 103⅜ | −0⅛ | +0⅛ | 9.94 |
| Nacnl. Financiera 11 90 | 150 | 100¾ | 101¼ | +0⅛ | +0⅛ | 10.79 |
| Nat. West. 9⅞ 92 | 100 | 105⅜ | 105⅞ | 0 | +0½ | 8.95 |
| New Zealand 9⅜ 89 | 200 | 104⅜ | 105⅛ | 0 | 0 | 8.80 |
| OKB 9⅜ 86 | 150 | 102⅞ | 103⅜ | 0 | −0⅛ | 9.08 |
| Quebec 10⅞ 92 | 150 | 105¾ | 106½ | −0⅛ | −0⅛ | 9.14 |
| Quebec Hydro 10¼ 91 | 150 | 105⅝ | 106⅛ | +0⅛ | +0⅛ | 9.26 |
| Tauernautobahn 9⅞ 94 | 50 | 103½ | 104 | +0⅛ | +0⅛ | 9.33 |
| Venezuela 11½ 91 | 100 | 101¼ | 101¾ | 0 | +0⅜ | 11.23 |
| World Bank 9½ 89 | 100 | 102⅜ | 102⅞ | +0¼ | +0⅞ | 8.97 |
| World Bank 10 91 | 250 | 105¼ | 106 | +0¼ | +0⅛ | 9.08 |

Average price changes... On day 0 on week +0⅛

| SWISS FRANC STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Ansett Transport 7½ 92 | 50 | 103¼ | 103¾ | −0¼ | −0⅛ | 6.99 |
| Asian Dev. Bank 8 90 | 80 | †104½ | 105 | +0⅛ | −0⅛ | 7.22 |
| Australia 6¾ 93 | 100 | 104⅝ | 105⅛ | +0⅛ | 0 | 6.14 |
| Australia 6½ 94 | 100 | 103⅜ | 103⅞ | +0¼ | +0¼ | 6.06 |
| Belgelectric 7½ 91 | 80 | 102½ | 103 | +0⅛ | +0⅛ | 7.09 |
| Bet. de Autopistas 8 90 | 50 | 101¼ | 101¾ | +0½ | +0⅛ | 7.72 |
| CFE-Mexico 8¼ 92 | 50 | 100¼ | 100¾ | 0 | −0⅛ | 8.15 |
| Co-op. Denmark 8⅜ 92 | 25 | 105⅛ | 105⅝ | +0⅛ | +1⅛ | 7.58 |
| Crown Zellrbch. 6⅞ 92 | 100 | 102¼ | 102¾ | +0⅛ | +0⅛ | 6.40 |
| Denmark 7⅜ 91 | 100 | 101¼ | 101¾ | +0⅛ | +0½ | 7.02 |
| EIB 7¼ 92 | 100 | 102 | 102½ | +0⅛ | −0⅛ | 6.92 |
| Elet. de France 7 92 | 100 | 101⅞ | 102⅜ | +0⅛ | 0 | 6.89 |
| ENEL 8 92 | 44 | 101⅛ | 101⅝ | −0⅛ | −0¼ | 7.79 |
| First City Fin. 8¼ 92 | 25 | 103½ | 104 | +0⅛ | +0⅞ | 7.69 |
| Manitoba 7 92 | 100 | 105¼ | 106⅛ | +0⅛ | +0¼ | 6.16 |
| National Pwr. Co. 8 92 | 30 | 103⅛ | 103⅞ | +0⅛ | +0¼ | 7.46 |
| Nippon T. and T. 6⅝ 92 | 100 | 103¼ | 103¾ | +0⅛ | +0⅛ | 6.13 |
| OKB 7¼ 92 | 100 | 104¼ | 104¾ | 0 | +0½ | 7.10 |
| Ost. Donaukraft 7 92 | 100 | 103½ | 104 | +0⅛ | +1⅛ | 6.46 |
| Ost. Postspar 7¼ 92 | 100 | 102½ | 103 | +0⅛ | +0⅛ | 7.10 |
| Philip Morris 6⅝ 92 | 100 | 103¼ | 103¾ | +0¼ | −0¼ | 6.16 |
| Quebec 7⅜ 92 | 100 | 104⅝ | 105⅜ | +0⅛ | +0¼ | 6.68 |
| Soc. Lux. de Cnt. 8½ 92 | 80 | 106⅝ | 107⅛ | +1½ | +2½ | 7.07 |
| Transcanada Pipe. 7 94 | 100 | 103¼ | 103¾ | +0¼ | +0⅛ | 6.56 |
| Vorarlberg Kraft 6¼ 92 | 50 | 102⅜ | 102⅞ | +0¼ | +0⅛ | 6.38 |
| World Bank 8 91 | 100 | 106½ | 107 | +0⅛ | +0¼ | 6.93 |

Average price changes... On day +0⅛ on week +0⅛

| YEN STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Asian Dev. Bk. 8⅝ 91 | 15 | 100⅜ | 101⅛ | 0 | +0⅛ | 8.05 |
| Int.-Amer. Dev. 8⅞ 91 | 15 | 102⅜ | 103⅛ | 0 | +0⅛ | 8.41 |
| Japan Airlines 7⅞ 87 | 9 | 97⅞ | 98⅜ | +0⅛ | +0⅛ | 8.42 |
| New Zealand 8⅞ 87 | 15 | 101⅞ | 102⅞ | 0 | +0½ | 7.97 |
| World Bank 8⅝ 92 | 20 | 100⅜ | 101 | +0½ | 0 | 8.27 |

Average price changes... On day +0⅛ on week +0⅛

| OTHER STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Crd. Foncier 17⅛ 89 C$ | 30 | †98¼ | 99¼ | 0 | +0⅛ | 17.38 |
| Montreal 17 89 C$ | 50 | †102 | 102½ | 0 | 0 | 16.40 |
| Queb. Hydro 16½ 89 C$ | 50 | †100 | 100½ | 0 | −0½ | 16.40 |
| Quebec Prov. 17 88 C$ | 50 | †101¼ | 102¼ | 0 | +0⅛ | 16.40 |
| Simpsons 16⅝ 89 C$ | 40 | †96¼ | 97 | 0 | +1 | 17.62 |
| Tordom Cpn. 16½ 88 C$ | 25 | †99¼ | 99¾ | 0 | +0½ | 16.59 |
| Transalta 17 89 C$ | 50 | 101 | 101½ | 0 | +0¼ | 16.63 |
| U. Bk. Nwy. 9½ 90 EUA | 18 | 89½ | 90⅛ | 0 | −0½ | 11.46 |
| Algemene Bk. 10¼ 86 Fl | 60 | *100½ | 101 | 0 | −0⅛ | 9.98 |
| Amfas Group 12¼ 86 Fl | 40 | *104⅞ | 105⅜ | 0 | +0½ | 10.72 |
| Amro Bank 12 86 Fl | 75 | *105⅞ | 106⅜ | −0⅛ | +0⅛ | 10.18 |
| Amro Bank 12 86 Fl | 80 | *105⅝ | 106⅛ | −0⅛ | +0⅞ | 10.26 |
| Pierson 10¼ 86 Fl | 50 | *100½ | 100⅞ | 0 | +0⅛ | 10.11 |
| Rabobank 12 86 Fl | 50 | *105¼ | 106¼ | 0 | +0⅛ | 10.13 |
| OKB 14 86 FFr | 400 | 90⅞ | 91⅞ | +0⅛ | +0⅜ | 17.21 |
| Solvay et C. 14¾ 86 FFr | 200 | 91⅞ | 92⅞ | +0⅛ | +2¼ | 17.58 |
| Acona 14 85 £ | 20 | 94¼ | 95¼ | 0 | +2½ | 15.94 |
| Beneficial 14¼ 90 £ | 20 | 86⅞ | 87⅞ | +0⅛ | 0 | 17.16 |
| BNP 13½ 91 £ | 15 | 89½ | 90½ | −0⅛ | −0⅛ | 15.63 |
| CECA 13½ 88 £ | 20 | 93½ | 94½ | +0¼ | −0⅛ | 14.95 |
| Fin. Ex. Cred. 13⅜ 86 £ | 15 | 94⅞ | 95⅞ | +0⅛ | +0½ | 15.38 |
| Gen. Elec. Co. 12½ 89 £ | 50 | 91 | 92 | 0 | −0⅛ | 14.52 |
| Hiram Walker 14¼ 86 £ | 25 | 96⅛ | 97⅛ | −0⅛ | −0¼ | 15.44 |
| Privatbanken 14½ 88 £ | 12 | 93½ | 94½ | +0⅛ | +0⅛ | 16.13 |
| Quebec 15½ 87 £ | 35 | 100⅜ | 101⅜ | 0 | −0¼ | 15.21 |
| Reed (Nd) NV 16⅜ 89 £ | 25 | 101⅞ | 102⅞ | −0⅛ | 0 | 16.26 |
| Royal Trustco 14 86 £ | 12 | 96½ | 97½ | −0⅛ | −0⅛ | 15.04 |
| SDR France 15½ 92 £ | 30 | 97⅞ | 98⅞ | −0¼ | −0¼ | 15.84 |
| Swed. Ex. Cr. 13¾ 86 £ | 20 | 96⅛ | 97⅛ | +0¼ | +0¼ | 14.74 |
| Eurofima 10½ 87 LuxFr | 500 | 96⅜ | 97⅜ | −0⅛ | −2 | 11.26 |
| EIB 9⅜ 88 LuxFr | 600 | 94 | 95 | 0 | −0½ | 11.07 |

| FLOATING RATE NOTES | Spread | Bid | Offer | C.dte | C.cpn | C.yld |
|---|---|---|---|---|---|---|
| Allied Irish 5¼ 92 | 0¼ | 98½ | 99 | 15/10 | 15.69 | 15.89 |
| Bank of Montreal 5¼ 91 | 0¼ | 98¾ | 99¼ | 29/10 | 15⅛ | 15.28 |
| Bk. of Tokyo 5¼ 91 (D) | 0⅛ | 98½ | 99 | 10/6 | 13⅛ | 13.42 |
| Bank Nova Scotia 5¼ 93 | 0¼ | 98⅞ | 99⅜ | 29/10 | 15⅛ | 15.26 |
| BFCE 5¼ 88 | 0¼ | 99¼ | 99¾ | 28/10 | 15 | 15.09 |
| BFCE 5¼ 87 | 0¼ | 99½ | 100 | 27/7 | 16⅛ | 16.29 |
| CCCE 5¼ 2002 | 0⅛ | 98¼ | 98¾ | 11/6 | 14.82 | 15.04 |
| Co-Ban Eurofin 5½ 91 | 0¼ | 98⅞ | 99⅜ | 14/10 | 16 | 16.14 |
| Credit Agricole 5¼ 97 | 0¼ | 99½ | 99¾ | 24/9 | 15.44 | 15.53 |
| Credit Lyonnais 5¼ 97 | 0¼ | 99½ | 100 | 1/10 | 16 | 16.04 |
| Credit Nat. 5¼ 94 | ‡0¼ | 98⅞ | 99¼ | 9/6 | 14.69 | 14.84 |
| Denmark, Kngdm. of 92 | 0⅜ | †99¼ | 99¾ | 25/8 | 15.44 | 15.54 |
| Den Norske Cred. 5½ 93 | 0¼ | 97¾ | 98¼ | 4/6 | 13.56 | 13.84 |
| Genfinance 5¼ 92 | 0¼ | 99½ | 100 | 30/6 | 15½ | 15.54 |
| GZB 5¼ 92 | ‡0¼ | 98⅞ | 99⅛ | 8/6 | 14.94 | 15.09 |
| Ind. Bank Japan 5¼ 88 | 0⅛ | 99⅛ | 99⅝ | 9/5 | 13.31 | 13.40 |
| Lloyds Eurofin 5¼ 93 | §0¼ | 99 | 99½ | 29/4 | 17.13 | 17.26 |
| LTCB Japan 5½ 89 | 0¼ | 99⅛ | 99⅝ | 16/7 | 15.31 | 15.41 |
| Midland Int. Fin. 9 91 | 0¼ | 99 | 99½ | 30/10 | 15.19 | 15.30 |
| Nat. West. Fin. 5¼ 91 | §0¼ | 99⅛ | 99⅝ | 15/7 | 15.19 | 15.28 |
| New Zealand 5¼ 87 | 0⅛ | 99⅛ | 99⅝ | 7/10 | 15.56 | 15.62 |
| Nippon Credit 5¼ 90 | 0⅛ | 99⅛ | 99⅝ | 10/8 | 16.06 | 16.16 |
| Nordic Int. Fin. 5½ 91 | 0¼ | 98½ | 99 | 6/5 | 15⅝ | 15.82 |
| Offshore Mining 5¼ 91 | 0⅛ | 98⅞ | 99⅜ | 2/6 | 13 | 13.11 |
| PKbanken 5 91 | 0¼ | 98¾ | 99¼ | 17/6 | 14⅜ | 14.52 |
| Scotland Int. 5¼ 92 | 0⅛ | 98⅞ | 99½ | 23/9 | 15⅜ | 15.55 |
| Sec. Pacific 5¼ 91 | 0⅛ | 98⅞ | 99⅜ | 24/5 | 13¼ | 13.37 |
| Societe Generale 5¼ 95 | 0⅛ | 99⅛ | 99⅝ | 1/9 | 15.31 | 15.41 |
| Standard Chart. 5½ 91 | 0⅛ | 98½ | 99 | 18/5 | 13.31 | 13.48 |
| Sumitomo Fin. 5½ 88 | 0⅛ | 99½ | 100 | 9/8 | 16 | 16.04 |
| Sweden 5¼ 89 | 0¼ | 99 | 99½ | 26/8 | 15.31 | 15.43 |
| Toronto Domin'n 5¼ 92 | 0⅛ | 99½ | 99⅞ | 11/8 | 16⅛ | 16.44 |

Average price changes... On day 0 on week 0

| CONVERTIBLE NOTES | Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem |
|---|---|---|---|---|---|---|
| Ajinomoto 5⅜ 96 | 7/81 | 933 | 90⅞ | 92⅛ | +0⅛ | 5.73 |
| Bow Valley Inv. 8 95 | 4/81 | 23.12 | 95¾ | 97 | −1⅛ | 63.83 |
| Bridgestone Tire 5½ 96 | 3/82 | 470 | 92 | 93½ | −0⅞ | −2.61 |
| Canon 6¾ 95 | 1/81 | 829 | 90⅛ | 92⅛ | +0¼ | 13.28 |
| Daiwa Secs. 5½ 96 | 12/81 | 513.3 | †64 | 66 | 0 | −2.54 |
| Fujitsu Fanuc 4½ 96 | 10/81 | 5641 | 97 | 98½ | +0¼ | 7.47 |
| Furukawa Elec. 5¼ 96 | 7/81 | 300 | 96 | 97½ | −2 | −5.88 |
| Hanson O/S Fin. 9½ 96 | 8/81 | 1.36 | †84 | 85 | −0½ | −8.87 |
| Hitachi Cable 5¼ 96 | 2/82 | 515 | 87 | 88½ | +0⅛ | 0.63 |
| Hitachi Cred. Cpn. 5 96 | 7/81 | 1612 | 84 | 86 | +1⅛ | 3.47 |
| Honda Motor 5½ 97 | 3/82 | 841 | 88½ | 90 | +1 | −0.55 |
| Inchcape 8 95 | 2/81 | 4.55 | †63 | 64½ | −0½ | 23.78 |
| Kawasaki 5⅜ 96 | 9/81 | 229 | 70 | 71½ | −0½ | −0.01 |
| Marui 6 96 | 7/81 | 846.4 | 99¼ | 100⅝ | +1⅛ | 2.93 |
| Minolta Camera 5 96 | 10/81 | 826.4 | 60½ | 62 | +0½ | 17.31 |
| Minorco 9¼ 97 | 5/82 | 8.16 | †86½ | 88 | −0½ | 16.87 |
| Murata 5¼ 96 | 7/81 | 2168 | 61½ | 63 | +0⅛ | 16.98 |
| NKK 6½ 96 | 7/81 | 188 | 85¼ | 86⅛ | 0 | −12.69 |
| Nippon Chemi-C. 5 91 | 10/81 | 919 | 63 | 65 | 0 | 3.12 |
| Nippon Electric 5⅜ 97 | 2/82 | 846 | 87 | 89½ | −0⅞ | 1.47 |
| Orient Finance 5¼ 97 | 3/82 | 1205 | 95 | 96½ | +1⅛ | 3.95 |
| Sanyo Electric 5 96 | 10/81 | 652 | 71½ | 73 | −0½ | 11.38 |
| Sumitomo Elec. 5½ 97 | 3/82 | 577.3 | 88 | 89½ | 0 | 1.95 |
| Sumitomo Met. 5⅝ 96 | 10/81 | 296.1 | 64⅛ | 65⅝ | +0⅛ | 10.68 |
| Swiss Bk. Cpn. 6⅝ 90 | 9/80 | 191 | 74 | 76 | 0 | 23.31 |
| Konishiroku 6 90 DM | 2/82 | 585 | 101⅞ | 102⅞ | −0⅛ | 4.97 |
| Mitsubishi H. 6 89 DM | 2/82 | 263 | 94⅞ | 95⅞ | −0⅛ | 14.21 |



EUROBOND TURNOVER (nominal value in $m)

| | Cedel | Euro-clear |
|---|---|---|
| U.S. $ bonds | | |
| Last week | 4,724.3 | 9,445.7 |
| Previous week | 4,897.3 | 9,081.6 |
| Other bonds | | |
| Last week | 1,031.2 | 988.0 |
| Previous week | 958.2 | 819.6 |

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Bankers Trust International; Credit Commercial de France (Securities) London; Citicorp International Bank; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on April 30

# Hoechst earnings fall as recession hits home sales

BY KEVIN DONE IN FRANKFURT

HOECHST, West Germany's biggest chemicals group, achieved a small nominal increase in group sales of 5.4 per cent in the first quarter of 1982 to DM 8.9bn ($3.8bn), but it is still having to rely on foreign sales for growth.

The company is being hit hard by the general recession in the domestic market. The volume of home sales dropped by 8 per cent in the first three months of the year.

Despite price increases Hoechst's domestic turnover fell by 1.4 per cent DM 1.45bn, while exports showed a nominal increase of 12 per cent to DM 1.8bn. The volume of export sales jumped by 6 per cent giving a marginal overall increase in volume sales of 0.4 per cent.

Parent company pre-tax profits dropped further by 4.2 per cent to DM 203m ($87m) from DM 212m, following the steep fall of 23 per cent in group pre-tax profits in 1981 to DM 1.2bn

In the home market Hoechst has suffered falling sales chiefly in inorganic chemicals, fertilisers, plastics and pharmaceuticals.

The company managed to achieve a small operating profit in its fibres operations in 1981 after years of accumulated losses.

The commodity plastics operation, however, is still suffering heavy losses. The deficit amounted to more than DM 220m pre-tax last year.

# Pernod increases profit

By Terry Dodsworth in Paris

PERNOD RICARD, the French drinks company, increased consolidated profits last year by a little over 20 per cent to FFr 300.3m ($48.4m).

The improvement came after a first half in which the company suffered a setback due to the slack market and high interest rates. But in the second half it made up for lost ground with good results in its spirits activities, and a better contribution from Austin Nicholls, its U.S. subsidiary.

# Saudi interests buy stake in IBH

BY OUR FRANKFURT CORRESPONDENT

SAUDI ARABIAN business interests have acquired a significant minority shareholding in IBH Holding, the West German building machinery group, with the injection of DM 90m ($38.6m) in new equity.

The acquisition of a 17.8 per cent stake in IBH by Dallah Establishment, a major Saudi industrial group headed by Sheikh Saleh A. Kamel, is the first public move by a Saudi investor to acquire West German industrial holdings.

Previously the states of Kuwait and Iran have led Middle East interests purchasing West German industrial equity with the acquisition of significant minority stakes in major companies such as Daimler-Benz, Metallgesellschaft, Krupp, Deutsche Babcock, and Korf Stahl.

IBH Holding, which was founded in 1975 by the West German enterpreneur Herr Horst-Dieter Esch, has expanded in seven years to become the world's third largest supplier of construction machinery after Caterpillar of the U.S. and Komatsu of Japan.

With sales last year of DM 2.4bn IBH's growth has been based on a series of takeovers of companies—several in financial difficulties—such as Zettelmeyer, Hamm, Hanomag, and Wibau in West Germany, Terex in the U.S., Hymac in the UK, and Derruppé, Pingon and Maco-Meudon in France.

In total IBH Holding is raising DM 150m in new equity with DM 90m being subscribed by Dallah, and DM 20m each coming from three existing shareholders, General Motors of the U.S. (which has an interest of 17.8 per cent), Powell Duffryn of the UK (17.6 per cent), and the Schroder, Münchmeyer, Hengst banking group (11.6 per cent). Sheikh Kamel is to join the IBH supervisory board.

Herr Esch, who has a personal equity stake of 11.6 per cent after the latest capital injection, still controls 56 per cent of the voting shares, although this control has been reduced from the previous level of 80 per cent. Other equity stakes are held by private Swiss and West German investment interests.

Herr Esch said the new capital would be passed on to group subsidiaries in order "to put them on a more solid equity basis, to cut bank borrowings and reduce interest payments."

The shortage of equity has hitherto been one of the main weaknesses of the young IBH group, which had to make interest payments of DM 150m last year.

Herr Esch hopes to build a much stronger stake in the Saudi Arabian building machinery market as a result of the Dallah stake. Dallah is active in Saudi Arabia as a contractor, and also has interests in airport servicing, entertainment, air conditioning, and manufacturing.

About 20 per cent of IBH sales are currently derived from the Middle East with particularly strong demand from Iraq. Group sales stagnated in the first four months of the year at DM 700m.

In the U.S. IBH has held off competition from Caterpillar to win an important contract from Lone Star Industries, the country's biggest cement producer, involving the purchase of at least DM 100m-worth of equipment over the next three years.

## EUROPEAN OPTIONS EXCHANGE

| Series | | May Vol. | May Last | Aug. Vol. | Aug. Last | Nov. Vol. | Nov. Last | Stock |
|---|---|---|---|---|---|---|---|---|
| GOLD C | $300 | 3 | 51 | — | — | — | — | $545.50 |
| GOLD C | $325 | | | 6 | 46 | — | | .. |
| GOLD C | $350 | 13 | 12 | 26 | 30 | — | — | .. |
| GOLD C | $375 | 13 | 3.50 | 7 | 18 | — | — | .. |
| GOLD C | $400 | — | | 20 | 10.50 | — | — | .. |
| GOLD C | $425 | 10 | 0.60 | | — | — | — | .. |
| GOLD P | $300 | — | — | 8 | 4 | — | — | .. |
| GOLD P | $325 | 14 | 2.50 | 21 | 13 | — | — | .. |
| GOLD P | $350 | 5 | 12 | 39 | 22A | — | — | .. |
| 12¾ NL 81 87.91 | | | | | | | | |
| C | F.110 | — | — | — | — | 200 | 5.40 | F.115.40 |
| C | F.112.50 | 5 | 3 | — | — | 200 | 3.60 | .. |
| C | F.115 | — | — | 10 | 2 | 4 | 2.60 | .. |
| C | F.117.50 | — | — | 8 | 0.60 | 213 | 1.10 | .. |
| P | F.107.50 | — | — | — | — | 40 | 0.40 | .. |
| 10¼ NL 80 86.95 | | | | | | | | |
| C | F.100 | — | — | 50 | 3.70 | — | — | 103.20 |
| C | F.102.50 | — | — | 20 | 2.40 | — | — | .. |
| C | F.105 | — | — | 30 | 1.20 | 110 | 1.50 | .. |
| P | F.105 | — | — | — | — | 4 | 3 | .. |
| 11¼ NL 82 88.92 | | | | | | | | |
| C | F.102.50 | — | — | 30 | 3 | — | — | F.104.90 |
| C | F.105 | — | — | — | — | 5 | 2 B | .. |
| P | F.105 | — | — | — | — | 5 | 2.20 | .. |
| | | July Vol. | July Last | Oct. Vol. | Oct. Last | Jan. Vol. | Jan. Last | |
| ABN C | F.300 | 35 | 4 | — | — | — | — | F.288 |
| ABN P | F.280 | 10 | 2 | — | — | 2 | 3.50 | .. |
| ABN P | F300 | 1 | 12.80 B | — | — | — | — | .. |
| AKZO C | F.25 | 2 | 4.60 | 5 | 5 | — | — | F.29 |
| AKZO C | F.27.50 | — | — | 2 | 2.90 | — | — | .. |
| AKZO C | F.30 | 101 | 0.70 | — | — | — | — | .. |
| AKZO C | F.32.50 | — | — | 10 | 0.90 | — | — | .. |
| AKZO C | F.25 | | | 2 | 0.50 | — | — | .. |
| AKZO P | F37.50 | 25 | 1 | 5 | 1.50 | — | — | .. |
| AKZO P | F.30 | 10 | 2.50 | 4 | 3.10 | — | | .. |
| AMRO P | F.50 | — | — | — | — | 1 | 1.80 | F.53.90 |
| AMRO P | F.55 | — | — | 6 | 3.70 | — | — | .. |
| HEIN C | F.55 | 3 | 3.80 | — | | — | — | F.57.70 |
| HEIN P | F.50 | — | — | 3 | 0.70 | — | — | .. |
| HEIN P | F.55 | 14 | 1.30 | — | — | — | | .. |
| HOOG C | F.17.50 | 25 | 0.80 | 20 | 1.40 | 15 | 2 | F.16.80 |
| HOOG P | F.17.50 | — | — | — | — | 3 | 2 | .. |
| KLM C | F.80 | 10 | 24 | — | — | — | — | F.101.50 |
| KLM C | F.90 | 8 | 14.50 | — | — | — | — | .. |
| KLM C | F.100 | 63 | 8.20 | 1 | 13.50 | — | — | .. |
| KLM C | F.110 | 216 | 4.60 | — | — | — | — | .. |
| KLM C | F.120 | 181 | 1.60 | 2 | 4 | — | — | .. |
| KLM P | F.80 | 20 | 0.80 B | — | — | — | — | .. |
| KLM P | F.90 | 44 | 1.80 | 12 | 3.30 | — | — | .. |
| KLM P | F.100 | 118 | 5 B | 10 | 7 | — | — | .. |
| KLM P | F.110 | 41 | 11 | 3 | 12.30 | — | — | .. |
| KLM P | F.120 | 5 | 19.20 | — | — | — | — | .. |
| NEDL C | F.120 | 13 | 6.50 B | 1 | 8 B | — | — | F.125 |
| NEDL C | F.130 | 11 | 1.30 | — | — | — | — | .. |
| NEDL P | F.110 | 40 | 3.50 | — | — | — | — | .. |
| NEDL P | F.120 | — | — | 10 | 10 | — | — | .. |
| NEDL P | F.130 | 2 | 16 A | — | — | — | — | .. |
| NATN C | F.115 | 14 | 2.80 B | 3 | 4 | 5 | 5 | F.116.80 |
| PHIL C | F.22.50 | 20 | 2.20 B | 52 | 2.90 | — | — | F.24.70 |
| PHIL C | F.25 | 37 | 0.90 | 57 | 1.30 | 61 | 1.90 | .. |
| PHIL C | F.27.50 | 210 | 0.20 | 81 | 0.60 | — | — | .. |
| PHIL P | F.22.50 | 42 | 0.50 | — | | 9 | 0.80 | .. |
| PHIL P | F.25 | 130 | 1.60 | 35 | 1.80 | 14 | 2.20 | .. |
| RD C | F.80 | 16 | 11.20 | 32 | 11.40 | — | — | F.90.90 |
| RD C | F.90 | 64 | 3.10 | 62 | 4.80 | 1 | 5.50 | .. |
| RD C | F.100 | 2 | 0.80 B | 7 | 1.40 | 35 | 2.70 | .. |
| RD P | F.80 | 20 | 0.80 | 32 | 1.50 | 1 | 2 | .. |
| RD P | F.90 | 33 | 4.70 | 4 | 5.60 | 1 | 5.80 B | .. |
| RD P | F.100 | 5 | 12.80 | — | — | — | — | .. |
| UNIL C | F.160 | 1 | 1.30 | — | — | — | — | F.156 |
| UNIL P | F.150 | 7 | 4.50 | — | — | — | | .. |
| UNIL C | F.160 | 5 | 10.50 | 10 | 12 | — | — | .. |
| | | May Vol. | May Last | Aug. Vol. | Aug. Last | Nov. Vol. | Nov. Last | |
| BOEI C | $20 | — | — | 2 | 1¼ | — | — | 519½ |
| MANN C | DM.150 | 10 | 1 | 10 | 3.50 | — | — | DM145 |
| VEBA C | DM.130 | 30 | 3.50 | — | — | 30 | 8 | DM132 |

TOTAL VOLUME IN CONTRACTS: 3364

A = Asked B = Bid C = Call P = Put

# Dow off 4.8 at mid-session

AN EARLY retreat took place on Wall Street yesterday in moderate activity, but some ground was regained around mid-session.

Analysts attributed much of the morning's decline to Wall Street worries regarding the escalation of the conflict between Britain and Argentina over the Falkland Islands.

The Dow Jones Industrial Average was a net 4.85 off at 843.51 at 1 p.m., after having fallen to 841.51 at the 10.30 a.m. calculation. The NYSE All Common index lost 11 cents on balance at $66.97, after touching $66.81. Declines led advances by a seven-to-five margin at mid-session after trading volume of 30.65m shares, down from last Friday's 1 p.m. figure of 36.85m.

The relatively slow level of trading analysts said, signifies that investors aren ot yet ready to sell off their positions but are instead mainly waiting on the sidelines for further developments.

Helping to depress the D-J Average was U.S. Steel, a major component of the index which dipped 1¼ to $23⅜ ex dividend.

Metromedia slipped 1½ to $210½ after news that it is to acquire Radiofone for $26 a share, or a total price of about $56m. Radiofone, traded over the counter, opened on a bid of $23, up 4½.

In contrast, Tosco gained 1⅛ to $12⅞ in active trading. Exxon must pay Tosco about $380m as a result of its decision to pull out of the Colony shale oil project, in which Tosco has a 40 per cent stake.

THE AMERCAN SE Market Value Index was down 0.82 at 269.64 at 1 p.m. Volume 2.38m shares (2.57m).

## Canada

Most sectors displayed an easier inclination yesterday morning in thin dealings. The Toronto Composite Index receded 8.8 to 1,539.3 at mid-day while Oil and Gas dipped 23.3 to 2,645.9, Metals and Minerals 7.9 to 1,387.0 and Real Estate and Construction 37.4 to 3,710.8.

However, the Gold shares index put on 12.7 to 2,129.2, aided by a higher Bullion price.

Hudson Bay Mining and Smelting, which reported a first-quarter loss, shed ½ to C$16⅞.

Among the actives, Mitel declined ½ to C$18. Gulf Canada ¼ to C$13¼ and Dome Petroleum ⅛ to C$8⅞.

## Germany

A slightly easier bias prevailed in very quiet trading.

The combination of the Falkland Islands crisis and yesterday's closure of the London markets sapped foreign buying interest.

However, some major Banks hardened, with Deutsche up DM 0.90 at DM 286 and Dresdner DM 0.70 at DM 165 amid speculation of a further Bundesbank interest rate cut this week.

Among Motors, Volkswagen declined DM 1.30 to DM 144.20 following news of higher first-quarter results but lower profits for the 1981 year. BMW shed DM 2 to DM 205, but Daimler edged up DM 0.20 to DM 286.50.

Hoechst, although it hopes to hold its dividend despite weaker markets, slipped a slight DM 0.30 to DM 124.70 in Chemicals. Electricals had Brown Boveri DM 3.90 weaker at DM 195.10, still depressed by last week's news of a dividend cut.

## Tokyo

The market was closed yesterday for the Constitution Day holiday.

In a half-day trading session on Saturday, the Nikkei-Dow Jones Average improved 54.77 to to 7,445.57 and the Tokyo SE index advanced 4.74 to 550.98.

## Paris

Bourse prices were mixed in light trading. Dealers cited caution on the part of market operators due to uncertainty over the international political situation.

In Electricals, CIT-Alcatel eased FFr 2 to FFr 866 despite announcing a rise in 1981 parent company net profits.

## Switzerland

Uncertainty about latest developments in the Falklands crisis kept foreign investors out of Swiss stock markets yesterday, and prices registered narrow mixed movements.

Expectations that Swiss consumer price index figures for April will be less favourable than in March because of rising petrol prices and higher rents also caused many operators to stay on the sidelines.

## Australia

Markets drifted lower in quiet trading. The Australian All Ordinaries index slipped 2.7 more to 499.5, the second time it has fallen through its 500 base-mark since introduction of the index at the start of 1980.

Brokers said the British air strike on the Falklands prompted little foreign interest in Australian stocks despite markets here being the first to trade after the bombing.

Among Minings, North Broken Hill fell 13 cents to A$1.95 on reporting an A$1m third-quarter loss.

CRA shed 10 cents to A$2.85 and Western Mining 5 cents to A$3.85, but MIM hardened 3 cents to A$3.18. Gold shares were little changed.

Overall market leader BHP dipped 20 cents to A$7.66, while in the Oil and Gas group, Santos lost 10 cents at A$4.90 and Crusader Oil the same amount to A$4.40.

## Hong Kong

Last Friday's advance was taken a good stage further in early trading yesterday on spill-over buying, but substantial liquidations near the close left stock prices mixed to easier on the day.

The Hang Seng index finally showed a modest net decline of 3.16 at 1,320.20. There was a reasonable turnover of HK$322.58m on the four exchanges, against last Friday's HK$362.07m.

Hong Kong Electric, after the recent sharp rise on the buying of a controlling interest by a Hong Kong Land-led group of investors, retreated 65 cents to HK$6.05.

China Light lost 30 cents at HK$14.70 and Hutchison Whampoa 20 cents at HK16.80, but Jardine Matheson gained 20 cents at HK$18.80, as did Wheelock Marden "A," at HK$6.45.

## Johannesburg

Last Friday's New York fall in the Bullion price left most Gold shares easier yesterday. Trading was limited by the London May Day holiday.

Gold producers shed up to 150 cents, as in Western Deep, R28.00.

Mining Financials and Platinums also tended to soften, but Copper share Palamin gained 50 cents at R12.50.

## Singapore

Shares ended with no decided trend after moderate activity.

Growth Industrial put on 6 cents to S$3.72 and Development Bank 10 cents to S$8.15, but Sime Darby shed 7 cents to S$2.29, Overseas Chinese Bank 10 cents to S$12.40 and Selangor Properties also 10 cents to S$5.40.

## HONGKONG RUBBER

With substantially increased contributions from tin tribute and investment income, Hongkong (Selangor) Rubber has shown an upsurge in profits from £460,092 to £612,247 in the year 1981. And the dividend is effectively lifted by 6p to 25p net, the final being 17p.

Tin tribute came to £395,068 (£313,242) and investment income to £122,624 (£69,462). After tax of £330,407 (£278,809) the net profit was £281,840 (£181,283) and earnings of 31.32p (20.14p) per share.

Closing prices for North America were not available for this edition.

## NEW YORK

## Indices

## CANADA

## BELGIUM (continued)

## HOLLAND

## AUSTRALIA

## JAPAN (continued)

## DENMARK

## FRANCE

## ITALY

## NORWAY

## HONG KONG

## SINGAPORE

## SOUTH AFRICA

## SWEDEN

## GERMANY

## AUSTRIA

## SWITZERLAND

## JAPAN

## BELGIUM/LUXEMBOURG

## Financial Rand US$0.79½ (Discount of 16½%)

## BRAZIL

## NEW YORK ACTIVE STOCKS

AHS

# Associated Heat Services Plc

(Incorporated in England under the Companies Act 1948, No. 883131)

## Offer for Sale by Tender

by

## S.G. Warburg & Co. Ltd.

of

**3,200,000 Ordinary Shares of 25p each at a minimum price of 230p per share, payable in full on application**

The Ordinary Shares now offered for sale rank in full for all dividends declared or paid on the Ordinary Share capital of the Company after the date hereof.

### Share Capital

| Authorised | | Issued and now being issued fully paid |
|---|---|---|
| £2,500,000 | in Ordinary Shares of 25p each | £2,000,000 |

### Indebtedness

At the close of business on 8th April, 1982 the Company and its subsidiaries had outstanding bank overdrafts of £739,000 and other loans of £457,000, none of which was secured. Save as disclosed herein and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had at that date any loan capital, including term loans, outstanding or created but unissued, or any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, or guarantees or other material contingent liabilities.

### Summary of information

The following information is derived from the full text of the Offer for Sale and accordingly must be read in conjunction with that text.

| Estimated profit, earnings and earnings per share for the year ended 27th March, 1982 | |
|---|---|
| Estimated profit before management charges and taxation | £2,900,000 |
| Estimated earnings (Note 1) | £1,790,000 |
| Estimated earnings per share (Note 2) | 22.4p |
| Estimated earnings per share based on a full tax charge (Note 3) | 18.5p |
| **Net tangible assets adjusted for the net proceeds of subscription** | |
| Net tangible assets as at 26th December, 1981, assuming the additional share capital had been in issue on that date and had been subscribed at the minimum tender price | £7,138,000 |
| Net tangible assets per share, on the basis of the number of Ordinary Shares in issue following the Offer for Sale. | 89.2p |

| Offer for Sale statistics based on the minimum tender price | |
|---|---|
| Minimum tender price per share | 230p |
| Market capitalisation | £18,400,000 |
| Price/earnings multiple on the estimated earnings per share (Note 2) | 10.3 |
| Price/earnings multiple on the estimated earnings per share based on a full tax charge (Note 3) | 12.5 |
| Gross dividend yield on the basis of expected net dividends per share of 9p for the year ending 26th March, 1983 | 5.59 per cent. |
| Estimated dividend cover on the basis of expected net dividends per share of 9p for the year ending 26th March, 1983 and on estimated earnings for the year ended 27th March, 1982 (Note 1) | 2.48 times |

*Notes*

(1) Estimated earnings are based on the estimated profits before taxation and before deduction of management charges in respect of the year, and adjusted to include notional interest calculated on the assumption that the net proceeds of the subscription at the minimum tender price had been placed on deposit for a full year to earn interest at a rate of 12 per cent. per annum. The estimated tax charge on the profit for the year, after accounting for the adjustments mentioned above, has been deducted to arrive at earnings.

(2) Estimated earnings per share have been calculated by dividing the estimated earnings by 8,000,000 Ordinary Shares of 25p each.

(3) Estimated earnings per share based on a full tax charge have been calculated by taking the estimated earnings shown above and by replacing the tax charge by a notional tax charge of 52 per cent. on the adjusted profit for the year. They are also calculated on the basis of 8,000,000 Ordinary Shares of 25p each.

Directors

**Sir Derek Ezra, M.B.E.** (Chairman)
Hobart House, Grosvenor Place, London SW1X 7AE

**Bernard Chad Smith** (Deputy Chairman)
Henandar, Horton Road, Ashley Heath, Nr. Ringwood, Hampshire BH24 2EH

**Alan Walter Tweedale, C.Eng., M.I.Gas.E., M.Inst.F.** (Managing Director)
17 Islet Park Drive, Maidenhead, Berkshire SL6 8LF

**Ralph Leslie Cohen, F.C.A.** (Finance Director)
5 Foxley Court, Christchurch Park, Sutton, Surrey SM2 5UE

**Patrick James Custis, C.B.E., F.C.A., F.C.M.A., J.Dip.M.A., F.C.I.S.**
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**Donald Davies, C.B.E., B.Sc., C.Eng., F.I.Min.E., C.B.I.M.**
Wendy Cottage, 21A Dukes Wood Avenue, Gerrards Cross, Buckinghamshire SL9 7LA

**Jacques Leon Louis Dewailly** (French)
34, Avenue du Golf, Villeneuve d'Ascq 59, France

**Jacques Alfred Charles Cesar Triplet** (French)
128 Rue Nationale, Lille 59, France

Secretary and Registered Office

**Rodney Grahame Castle, F.C.C.A., F.C.I.S.**
2 Salisbury Road, Wimbledon, London SW19 4EZ

Auditors and Reporting Accountants

**Ernst & Whinney, Chartered Accountants,**
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Solicitors to the Company

**Freshfields,**
Grindall House, 25 Newgate Street, London EC1A 7LH

**Ronald V. Cowles,**
Hobart House, Grosvenor Place, London SW1X 7AE

Solicitors to the Offer

**Travers Smith, Braithwaite & Co.,**
6 Snow Hill, London EC1A 2AL

Stockbrokers

**Rowe & Pitman,**
City Gate House, 39-45 Finsbury Square, London EC2A 1JA

Bankers

**National Westminster Bank PLC,**
21 Lombard Street, London EC3P 3AR

Receiving Bankers to the Offer for Sale

**Regis Securities,**
Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ

Registrars and Transfer Office

**Regis Securities,**
Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ

### Introduction

The business of AHS principally involves the supply of heat or steam to factories, offices and residential premises, and the operation and maintenance of boiler plant and equipment.

AHS was formed in 1966 by the National Coal Board, Compagnie Générale de Chauffe ("CGC"), a French company which is a leader in the field of heat management in France and elsewhere in Europe, and Solar Industries Limited, each of which took an equal shareholding in the Company. In 1969, they were joined by a fourth shareholder, Wm. Cory & Son, Limited, now a subsidiary of Ocean Transport & Trading plc. In 1970, the shares owned by Solar Industries Limited were acquired by the other three shareholders in equal proportions, so that the National Coal Board, CGC and Wm. Cory & Son, Limited each then owned one third of the shares in issue. The National Coal Board's holding has since been transferred to its wholly owned subsidiary NCB (Ancillaries) Limited, which acts as a holding company for a number of the National Coal Board's interests, and part of Wm. Cory & Son, Limited's holding has been transferred to affiliated companies. In this document the National Coal Board and NCB (Ancillaries) Limited are each referred to as "the NCB" and Wm. Cory & Son, Limited and its affiliates are referred to as "Cory".

AHS sees the obtaining of a Stock Exchange listing as a logical step in its further development and will utilise the finance raised by the Offer for Sale to strengthen its capital base and to provide additional working capital. Cory will dispose of its minority holding in AHS in the Offer for Sale because it considers that the investment is not of primary importance to its current overall strategy. Accordingly, the shares being sold in the Offer for Sale comprise all the 2,400,000 Ordinary Shares of 25p each owned by Cory and 800,000 new Ordinary Shares of 25p each now being issued by the Company. Following the Offer for Sale, the NCB and CGC will each own 30 per cent. of the issued Ordinary Share capital of AHS and do not intend, in the absence of unforeseen circumstances, to dispose of any of their holdings within the next twelve months.

### History

AHS was one of the first enterprises in the United Kingdom to promote and market a comprehensive heat supply and management service, a concept which had long been established in France, where CGC carries on a similar business with a current turnover of approximately £215 million. CGC's experience, which dates back to the 1930's, has been of great benefit to AHS, particularly through the supply of technical know-how.

Early in 1967, AHS agreed to operate a number of heat service contracts for the NCB; these provided a nucleus from which to develop the Company's business. These contracts were for the provision of a heat supply to the district heating schemes originally promoted by the NCB. Under these schemes, which are mainly in the North East of England, heat from central boiler installations is provided (usually under contract to local authorities) for whole developments, including both commercial and residential premises. AHS has continued to act as operating agent for the NCB in respect of many of these contracts, although the relative importance of this business to AHS is declining with the growth of its business in other areas and a reduction in the number of district heating schemes.

Later in 1967, AHS started to secure contracts on its own account for the provision of a full heat management service, including the operation and maintenance of coal, oil and gas-fired plants, and has gradually extended its geographic coverage of the United Kingdom, opening new area offices as and when justified by the winning of new contracts. AHS now operates from ten area offices which cover most of the United Kingdom, and is the largest company in the country operating in its field. Competition is provided by a number of much smaller undertakings. AHS does not trade outside the United Kingdom.

### Business

#### General

The principal services provided by AHS are the supply of heat or steam to customers' plant or premises and, increasingly, the provision of air-conditioning. AHS attends to the operation and maintenance of boiler houses, boiler plant and heat distribution systems, supplies the requisite fuel to its customers' sites, generates heat or steam using the customers' own boilers and ancillary plant and carries out plant maintenance and repair work. Its operatives make regular service visits and offer a prompt repair service to cater for breakdowns. In some cases, control is maintained through on-site monitoring equipment owned and supplied by AHS and linked by telephone lines to AHS's operational centres, which are manned 24 hours a day. AHS will also undertake to replace certain items of plant and equipment under the replacement guarantee scheme referred to below. For those customers who do not require a full heat or steam supply service, AHS provides a maintenance only service, which involves regular visits as well as prompt repairs in the event of breakdowns. Additionally, the Company provides a design and construction service in relation to boiler houses, boiler plant and heat distribution systems, usually by co-ordinating the work of sub-contractors.

AHS may arrange hire purchase or leasing finance for the installation of new equipment when required. In the past, such finance has been provided by a specialist finance company or, in certain cases, through credit arrangements provided by the NCB (referred to below under "Relationship with shareholders"). Recently, customer financing requirements have also been provided from facilities available to AHS itself. The Company believes that this type of arrangement is attractive to certain potential customers, and that it adds usefully to AHS's range of services. AHS is also able to advise on the availability of grants under the Government scheme to aid conversion to coal-fired boilers, the extension of which was announced in the last Budget.

AHS has recently developed the expertise and technology to be able to monitor plant and control energy consumption remotely. This is a new aspect of AHS's comprehensive heat service and one where the Directors expect significant growth because of the prospect it affords customers of making economies. It is now being offered separately by the Energy Management Division through the computer-controlled ERCO system – Energy Remote Control and Optimisation. It permits accurate budgeting, continuous fuel auditing and full remote control of all energy-using functions, such as cooking, heating, air-conditioning, refrigeration and fire and security alarms, and is therefore particularly beneficial for customers such as retail stores and hotel groups.

The services provided by AHS relieve the customer of the day-to-day responsibility for looking after his heating and air-conditioning plant and provide him with clear financial benefits. These derive from the bulk purchase of fuel and sundry materials and the availability of the skilled engineers and boiler operators who run and control the boiler plant and heating systems. In many areas, one boiler operator can look after up to a dozen small installations, with great savings to the customer compared with the cost of employing full-time personnel. Further, by the use of up-to-date monitoring techniques, AHS is able to ensure the continuing efficiency of boiler operations, with resulting economies for the customer.

#### Customers and sources of supply

The Company's customers fall into three main categories: industrial customers, to whom AHS supplies heat for factories and offices and steam for industrial processes; commercial customers, to whom AHS supplies heat for offices; and local authorities and housing associations, to whom AHS supplies heat for offices and houses, mainly under district heating schemes.

At present, AHS has some 700 customers and services some 1,250 installations. The size of contracts, in terms of annual revenue, varies from a few pounds in the case of some maintenance contracts to very large sums in respect of district heating schemes and industrial installations. It is estimated that the 10 largest contracts contributed approximately 13 per cent. of turnover in the year ended 27th March, 1982.

The split of revenue by customer category is as follows:–

| Category of customer | Year ended 31st March, 1980 £000 | % | 28th March, 1981 £000 | % | 27th March, 1982 (estimated) £000 | % |
|---|---|---|---|---|---|---|
| Industrial | 10,392 | 39 | 11,645 | 37 | 14,000 | 39 |
| Commercial | 6,241 | 23 | 7,948 | 26 | 9,000 | 25 |
| Local authorities | 9,796 | 37 | 10,950 | 35 | 12,400 | 34 |
| Other | 267 | 1 | 583 | 2 | 800 | 2 |
| Total | 26,696 | 100 | 31,126 | 100 | 36,200 | 100 |

The types of fuel on which contracts are based tend to depend on the area concerned. For instance, coal-based contracts occur more frequently in the North East, Yorkshire, Lancashire and Nottinghamshire, while further south oil and gas are more common.

The proportion of revenue derived by AHS from contracts based upon the various types of fuel is as follows:–

| Types of fuel | Year ended 31st March, 1980 £000 | % | 28th March, 1981 £000 | % | 27th March, 1982 (estimated) £000 | % |
|---|---|---|---|---|---|---|
| Coal | 10,647 | 40 | 12,643 | 41 | 15,700 | 43 |
| Oil | 9,648 | 36 | 9,460 | 30 | 9,900 | 28 |
| Gas | 3,851 | 14 | 4,942 | 16 | 5,600 | 15 |
| | 24,146 | 90 | 27,045 | 87 | 31,200 | 86 |
| Maintenance and other | 2,550 | 10 | 4,081 | 13 | 5,000 | 14 |
| Total | 26,696 | 100 | 31,126 | 100 | 36,200 | 100 |

AHS obtains coal principally from the NCB and Cory, fuel oil from Shell U.K. Limited, Amoco (U.K.) Limited and Charringtons Fuel Oils Limited and gas from British Gas Corporation. The NCB is the largest single fuel supplier to AHS. Following the Offer for Sale, it is not expected that there will be any significant change in AHS's supplier arrangements.

Under normal market conditions, AHS neither enters into forward purchase commitments nor attempts to carry reserve stocks; instead its policy is to make purchases of fuels as and when required. However, when AHS has foreseen a shortage in the past, it has generally been able to build up a sufficiently large stockpile of fuels to ensure that service to customers has not been interrupted.

#### Types of contract

AHS normally enters into formal contracts with its customers for heating and maintenance services.

Heat service contracts are for minimum fixed periods varying from three months to thirty years, the majority in both number and revenue being for five years or more. The maintenance only contracts are generally for a minimum term of one year. Both types of contract continue after the minimum period until either AHS or its customer gives notice of termination. Approximately one third of all current contracts have been continued in this way. Contracts normally provide for monthly payments.

AHS adopts two methods of charging for heat service contracts. Under the first method – a single tariff contract – an annual charge is agreed with the customer to cover all heat supplies, regardless of the actual amount of heat used. Under the second method – a two-part tariff contract – the customer pays an annual charge to cover routine service work and a separate charge at an agreed rate for every unit of heat produced or fuel consumed. The majority of the Company's heat service contracts are two-part tariff. Single tariff contracts are more appropriate for some commercial customers where the heat requirement is relatively stable, but industrial customers and local authorities normally wish for flexibility in their heat or steam requirements, making two-part

# Associated Heat Services Plc

continued

tariff contracts more suitable. Mild winters increase the profitability of single tariff contracts as a result of lower fuel consumption, but tend to reduce the profitability of two-part tariff contracts because of lower throughput. Overall, profits are not unduly weather-sensitive.

Contracts provide for adjustment to the supply price if the unit cost of the relevant fuel or the cost of labour or materials rises or falls during the continuance of the contract. A formula is used to determine the adjustment for labour cost increases, while charges for materials are linked to the wholesale price index applicable to the steel industry. At times when fuel prices are increasing, profits benefit from the link with them, while at times when fuel prices are declining or increasing more slowly than other costs, profits suffer. Owing to seasonal variations in the use of fuel by customers, the Company's revenues and profits do not accrue evenly through the year.

### Replacement guarantees

AHS is able to offer a special facility by incorporating in heat service contracts a "replacement guarantee" under which AHS is responsible during the term of such contracts for the repair and replacement of certain items of boiler plant and equipment, as and when necessary. In these circumstances, AHS builds into the contract price a premium, calculated on a formula basis, to cover the cost of implementing the guarantee. The customer who opts for this guarantee benefits from an element of insurance against plant break-down and the cost of replacement, whilst AHS, if the plant is carefully maintained and operated by its staff, can benefit from the premium in the contract price to the extent that it is not after all required in full to replace plant and equipment. Approximately one third of the Company's current contracts, usually those of fifteen to twenty-five years' duration, contain this guarantee provision.

AHS accounts for the guarantee by reducing revenue from each contract by the amount of the annual premium, which is credited to a general replacement guarantee provision. Expenditure incurred on replacements is charged against this provision. Credits to the replacement guarantee provision are increased each year by reference to price indices to take account of inflation in labour and materials costs; however, past provisions are not increased to take account of the effects of inflation.

In calculating the charges for this replacement service AHS has had regard to the experience of CGC which has operated a comparable arrangement for many years, and AHS believes that the replacement guarantee provision will be at least adequate to cover its liabilities.

### Relationship with shareholders

The shareholders have helped the Company in various ways, particularly in its formative years. The NCB has introduced business and seconded employees to AHS, CGC has provided know-how and also seconded employees and Cory has provided technical training. In recognition of this assistance, each of the shareholders has received an annual management fee, the first payment having been made in the financial year ended 31st March, 1975. As AHS has grown, the provision of such assistance has become of less importance and management fees ceased to accrue from 28th March, 1982. Details of fees paid are contained in the profit and loss accounts of AHS set out in the Accountants' Report. In addition, AHS has paid the NCB a market rate for various support services.

Over the years, the NCB has been the major supplier of coal to AHS, although some supplies have been obtained from Cory. All supplies of coal are on an arm's length basis. Prior to April, 1981, the NCB allowed AHS to extend the normal credit period for its purchases of coal by means of bills of exchange of up to 90 days. The interest savings resulting from these arrangements cannot be assessed precisely, but are estimated to have been of the order of £40,000 in the year ended 31st March, 1977, rising to approximately £85,000 in the year ended 28th March, 1981.

When AHS commenced business, it was appointed by the NCB to operate a number of district heating schemes on the NCB's behalf, as described above. The arrangements for some of these operations are on a less formal basis than usual but it is anticipated that certain of these schemes will be phased out by the relevant local authorities over the next three years; this is not expected to have a material effect on the profits of AHS. In addition to this business, AHS provides heat services and undertakes maintenance for the NCB and its associates, including a nominee company of the NCB pension schemes; these arrangements are on arm's length terms and are continuing. The total revenue derived by AHS from such arrangements with the NCB and its associates (but excluding the district heating schemes) during the year ended 27th March, 1982 is estimated to have amounted to £1,353,000.

In 1974, the NCB requested AHS to join in the promotion of solid fuel heating. The major part of the resulting promotional activity in recent years has taken the form of the use by AHS of a credit facility based upon a notional quantity discount on total coal purchased by AHS from the NCB, which AHS used to finance the purchase of coal-fired plant for use at its customers' premises. Each drawing by AHS on this facility was matched with a particular heat service contract, though the rate of interest charged to customers was slightly higher than that which applied under the NCB facility. The effect of these credit arrangements on the annual profits of AHS has not been material and, in substitution, AHS has since begun to finance the purchase of heating equipment for use by its customers either from facilities available to it or through third party leasing which it has arranged. Consequently, no drawings have been made by AHS under the NCB facility since August, 1981 and the remaining loans, amounting to £457,000 outstanding as at 27th March, 1982, will be repaid over the periods originally agreed.

### Management and employees

Each of the NCB, CGC and Cory has in the past been represented by two Directors on the AHS Board and has maintained a close interest in the Company's development. Following the Offer for Sale, the NCB and CGC will each, by virtue of its shareholding, be entitled to be represented by two Directors pursuant to a special provision in the Articles of Association of AHS, and their present appointees, Sir Derek Ezra and Mr. D. Davies for the NCB, and Mr. J. L. L. Dewailly and Mr. J. A. C. C. Triplet for CGC, will therefore remain on the Board. The Cory appointees resigned immediately prior to the Offer for Sale. The Board also includes a further non-executive Director, Mr. P. J. Custis, in addition to the three executive Directors. Details of the Directors are as follows:—

### Directors

**Sir Derek Ezra**, aged 63, is the non-executive Chairman, having joined the Board of AHS upon its formation in 1966. His principal business occupation is Chairman of the NCB and he is also a director or chairman of a number of the NCB's subsidiary and associated companies as well as holding other company appointments. Sir Derek began his career in the coal industry in 1947 when he joined the marketing department of the NCB and, following various overseas and marketing appointments, was appointed a Member of the NCB in 1965 (with special responsibility for marketing), Deputy Chairman in 1967, and Chairman in 1971. Sir Derek is due to retire as Chairman of the NCB in July, 1982 but has been asked by the Board of AHS to continue as Chairman of the Company, and has agreed to do so.

**Mr. B. Chad Smith**, aged 69, is the Deputy Chairman. He joined AHS as Managing Director in 1969 on secondment from the NCB, and joined AHS permanently five years later. In 1977, Mr. Chad Smith became executive Deputy Chairman. Mr. Chad Smith has gradually reduced his commitments and now devotes approximately two days a week to the Company's affairs. Before joining AHS, Mr. Chad Smith held a number of senior posts within the NCB.

**Mr. A. W. Tweedale**, aged 47, is the Managing Director. He joined AHS upon its formation, having previously worked for the North Eastern Gas Board and then the NCB. He moved to the head office of AHS in 1977 as Deputy Managing Director, having previously been an area manager, and has been chief executive since 1979.

**Mr. R. L. Cohen**, aged 34, was appointed Finance Director in December, 1981. He is a chartered accountant and was previously employed by Ernst & Whinney for ten years.

**Mr. P. J. Custis**, aged 61, was appointed a non-executive Director in September, 1981. He joined Guest, Keen & Nettlefolds plc ("GKN") in 1967 and after various senior appointments was appointed Director of Finance of the group world-wide in 1974. Mr. Custis retired from GKN on 31st December, 1981. He is a Director of Turriff Corporation Limited, Cayzer Gartmore Investments Limited and the Birmingham and West Midlands Regional Board of Lloyds Bank Plc, and a member of the Monopolies and Mergers Commission.

**Mr. D. Davies**, aged 58, was appointed a non-executive Director in April, 1982. He has been a Member of the NCB since 1973, and is now responsible for marketing, coal science and open-cast mining, having previously been Area Director for the South Wales Area since 1967.

**Mr. J. L. L. Dewailly**, aged 60, was appointed a non-executive Director on formation of the Company in 1966. He has been involved in heat management service since 1945 when he joined CGC and after various appointments is now the current Chairman and Managing Director of CGC and chairman or a director of a number of its subsidiary companies. In addition, Mr. Dewailly is a Conseilleur of the Banque de France and holds other company appointments.

**Mr. J. A. C. C. Triplet**, aged 60, was appointed a non-executive Director shortly after the formation of the Company in 1966. He joined CGC in 1960, becoming a Director in 1971, and is also a director of a number of its subsidiary companies.

### Senior management

Mr. R. F. Catherall (aged 44) and Mr. B. M. Gibson (aged 48), who have been with AHS since 1966 and 1973 respectively, are regional directors of AHS. Mr. Catherall has overall responsibility for the Nottingham, Leicester/Birmingham and South Yorkshire area offices whilst Mr. Gibson is responsible for the East and West London and Western area offices. The remaining four area offices report directly to Mr. Tweedale. Mr. M. V. Murray (aged 55), who has been with the Company since 1969, when he joined from Cory, is technical director and has overall responsibility for all technical aspects of contracts.

### Employees

AHS has some 840 employees throughout the United Kingdom, including approximately 680 engineering and technical operational staff.

The area managers supervise all aspects of the business in their own areas. Each area manager has within his area sales staff, operations managers and engineers and various grades of operatives, some of whom are permanently assigned to specific customer premises. In addition, an accountant and supporting staff are located in each area.

The group chief accountant, Mr. C. Machin, and his staff are located in Doncaster. The transport department, the personnel and training section and the recently introduced energy management division are located in Wakefield.

AHS recognises four trade unions: the British Association of Colliery Management; the Association of Scientific Technical and Managerial Staffs; the General and Municipal Workers Union; and the Associated Union of Engineering Workers. Labour relations have been and continue to be good.

Two self-administered contributory pension schemes for the operatives and management are operated by the Company covering almost all employees. A small number of the Company's employees were formerly employed by the NCB and, in accordance with arrangements made when they joined AHS, each of them has continued as a member of the NCB pension schemes to which AHS pays employer's contributions. A sales incentive scheme is currently being developed.

### Training

AHS places particular emphasis on training, since the extent to which it is able to undertake new contracts depends on its ability to recruit and train an adequate number of new operatives. Since 1979, AHS has had its own training department at the area office in Wakefield, where the training officer arranges courses, principally for the operatives but also for middle management and sales staff. Instruction is given by outside instructors as well as AHS personnel. Courses include heat service, electrical familiarisation, and welding and refrigeration, all within guidelines initially laid down by the College of Fuel Technology. By way of illustration, in the year ended 27th March, 1982, a total of 20 courses were held, each of which catered for about ten employees. AHS is currently increasing the number of training department personnel in order to meet the need for skilled engineers as new contracts are won.

### Premises

Until February, 1982, the head office of AHS was at the NCB's head office at Hobart House, for which the NCB received an annual fee based on a market rent. The Company's head office is now situated in Wimbledon and consists of leasehold premises having a total area of 3,700 square feet. The majority of its other offices and premises are leasehold, except for its property in Wakefield which is freehold.

Further details of premises are set out in paragraph 8 of Appendix II.

### Proceeds of the issue and working capital

3,200,000 Ordinary Shares are now being offered for sale. Of these, 2,400,000 Ordinary Shares are being made available by Cory, which, as already stated, is disposing of its entire holding, and 800,000 are new Ordinary Shares for which S. G. Warburg & Co. Ltd. has agreed to subscribe in cash ("the subscription"). The net proceeds of the subscription based on the minimum tender price are estimated at £1,487,000, after deduction of those expenses of the Offer for Sale which are to be borne by the Company, and for each 5p by which the price fixed ("the striking price") exceeds the minimum tender price, the Company will receive approximately a further £39,600.

As already indicated, the net proceeds of the subscription will provide additional working capital for AHS and will strengthen the capital base of the Company, enabling it to finance the continued development of its business, including further plant installations at customers' premises.

The net tangible assets of AHS at 26th December, 1981, as shown in the Accountants' Report, amounted to £5,651,000. Taking into account the net proceeds of the subscription at the minimum tender price, as estimated above, and the new Ordinary Shares being issued, the adjusted net tangible assets at that date of £7,138,000 represent 89.2p per Ordinary Share.

The Directors are of the opinion that, having regard to the cash resources of AHS and its subsidiaries and to bank facilities available to them, as well as to the net proceeds of the subscription, AHS and its subsidiaries have sufficient working capital for their present requirements.

### Profits, dividends and prospects

**Past profits**

Set out below is a summary of the Company's results, under the historical cost convention, for the five years ended 28th March, 1981, together with the estimated results for the year ended 27th March, 1982. These figures, other than the estimated figures for the year ended 27th March, 1982, are more fully detailed in the Accountants' Report:—

| | Years ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | Year ended 28th March, 1981 £000 | Estimate for year ended 27th March, 1982 £000 |
|---|---|---|---|---|---|---|
| Turnover | 11,909 | 16,667 | 20,218 | 26,696 | 31,126 | 36,200 |
| Cost of sales | 10,743 | 15,114 | 18,764 | 24,194 | 28,561 | 33,440 |
| Trading profit | 1,166 | 1,553 | 1,454 | 2,502 | 2,565 | 2,760 |
| Net interest receivable | 44 | 59 | 48 | 104 | 159 | 140 |
| Profit before management charges and taxation | 1,210 | 1,612 | 1,502 | 2,606 | 2,724 | 2,900 |
| Management charges | 84 | 119 | 144 | 192 | 228 | 260 |
| Profit before taxation | 1,126 | 1,493 | 1,358 | 2,414 | 2,496 | 2,640 |
| Taxation | 589 | 782 | 692 | 1,237 | 1,000 | 1,060 |
| Profit available for distribution | 537 | 711 | 666 | 1,177 | 1,496 | 1,580 |
| Dividends | 75 | 150 | 150 | 225 | 300 | 300 |
| Retained profit | 462 | 561 | 516 | 952 | 1,196 | 1,280 |

Notes:—
(1) The estimated results for the year ended 27th March, 1982 have been calculated upon the bases and assumptions set out in Appendix I.
(2) No management charges will be paid in respect of periods after 27th March, 1982.

**Significant factors affecting past results**

Significant factors affecting the trend in turnover and profits during the six years ended 27th March, 1982 included:—

(a) the success of AHS in gaining new contracts: the number of installations serviced has increased from approximately 800 in 1977 to some 1,250 at 27th March, 1982;
(b) the effects of inflation;
(c) the incidence of stock profits, particularly in the year to 31st March, 1980;
(d) the effects of recession during the two years ended 27th March, 1982; this was evidenced by reduced requirements for heat and steam as customers' levels of business activity declined and by loss of contracts and the incidence of bad debts arising from the insolvency of certain customers, particularly in the industrial North of England;
(e) the effects on margins in the year ended 31st March, 1979 of the payment of higher wage awards to AHS staff than could be recovered from customers under the terms of their contracts; and
(f) the interest effects of extended credit arrangements described under "Relationship with shareholders."

**Underlying trend in profits**

The underlying trend in profits, stated before management charges and taxation and prior to any charges or credits in respect of bad debts and stock profits, and prior to the estimated benefit of extended credit arrangements (now terminated), is as follows:—

| | Years ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | Year ended 28th March, 1981 £000 | Estimate for year ended 27th March, 1982 £000 |
|---|---|---|---|---|---|---|
| Profit (as defined above) | 1,136 | 1,540 | 1,440 | 2,353 | 2,783 | 2,948 |

**Estimates for the year ended 27th March, 1982**

The Board of AHS estimates that, on the bases and assumptions described in Appendix I, the turnover and the profit before management charges and taxation for the year ended 27th March, 1982 were not less than £36,200,000 and £2,900,000 respectively.

After estimated management charges of £260,000 and an estimated tax charge of £1,060,000, this would leave earnings of £1,580,000, (or, on the basis of a notional full tax charge of 52 per cent., £1,267,000). Taking by way of illustration the estimated earnings for the year ended 27th March, 1982 of £1,580,000 and adjusting to add back management charges in respect of the year and to include notional interest, calculated on the assumption that the net proceeds of the subscription at the minimum tender price had been placed on deposit for a full year to earn interest at a rate of 12 per cent. per annum, earnings attributable to shareholders would be £1,790,000 (£1,477,000 on a full tax charge).

**On the basis of the number of Ordinary Shares which will be in issue following the Offer for Sale, this is equivalent to earnings per Ordinary Share of 22.4p (18.5p on a full tax charge) and, at the minimum tender price of 230p, the price/earnings multiple is 10.3 (12.5 on a full tax charge).**

Letters from Ernst & Whinney and S. G. Warburg & Co. Ltd. reporting on the estimates are set out in Appendix I.

**Dividends**

The dividend in respect of the year ended 27th March, 1982 has already been paid. The Ordinary Shares now offered for sale rank in full for all dividends declared or paid on the Ordinary Share capital of the Company after the date hereof.

The Directors expect, in the absence of unforeseen circumstances, to recommend dividends in respect of the year ending 26th March, 1983 totalling not less than 9p per Ordinary Share (12.86p inclusive of tax credit) on the share capital as increased by the subscription. Of this, the Company would expect to pay 3p per share (4.29p inclusive of tax credit) as an interim dividend in January, 1983 and 6p (8.57p inclusive of tax credit) as a final dividend in August, 1983.

A total dividend of 12.86p per Ordinary Share (inclusive of tax credit) would represent a gross yield of 5.59 per cent. on the minimum tender price of 230p and would be covered 2.48 times by the estimated earnings of £1,790,000 for the year ended 27th March, 1982.

**Prospects**

The Board of AHS believes that the Company's growing emphasis on sophisticated operational controls and its determination to maintain high standards of work place it in a good position to maintain its existing customer base and to obtain new contracts. AHS also intends to take advantage of the possibilities for developing new areas of business within its particular expertise and to utilise modern technologies and computerised systems where possible. The recently introduced ERCO system is an example of such a development. The Board believes that the available market is substantial and that the lead which AHS has in the heat services market, combined with the growing emphasis on controlling energy costs generally, leave the Company well placed to expand its business and to take advantage of the expected upturn in the economy. Whilst it is too early to make a profit forecast for the year ending 26th March, 1983, the Board views the future with confidence.

### Accountants' Report

The following is a copy of a report to the Directors of AHS and the Directors of S. G. Warburg & Co. Ltd. made by the auditors and reporting accountants, Ernst & Whinney, Chartered Accountants:—

The Directors,
Associated Heat Services Plc
and
The Directors,
S. G. Warburg & Co. Ltd.

57 Chiswell Street,
London EC1Y 4SY.

28th April, 1982

Gentlemen,

We have examined the audited accounts of Associated Heat Services Plc ("AHS") and of its subsidiaries for the four years ended 31st March, 1980, for the financial year ended 28th March, 1981 and for the 39 weeks ended 26th December, 1981. These accounts have been prepared under the historical cost convention. Throughout this period we have been auditors of AHS and of its subsidiaries.

The information set out below under the heading "Historical cost accounts" is based on the audited accounts of AHS, after making such adjustments as we consider appropriate. In our opinion, this information gives, on the basis of the historical cost convention, a true and fair view of the profits and source and application of funds of AHS for the four years ended 31st March, 1980, for the financial year ended 28th March, 1981 and for the 39 weeks ended 26th December, 1981, and of the state of affairs of AHS at 26th December, 1981.

We have also examined the abridged supplementary current cost accounts of AHS for the financial year ended 28th March, 1981 and for the 39 weeks ended 26th December, 1981, which have been prepared under the current cost convention in accordance with Statement of Standard Accounting Practice 16 ("SSAP 16"). We set out below, under the heading "Current cost accounts", the summarised statement of profit and of net assets prepared under the current cost convention. In our opinion these statements have been properly prepared in accordance with the policies and methods set out in the notes to give the information required by SSAP 16.

Consolidated accounts of AHS and of its subsidiaries have not been prepared as the amounts involved in respect of the subsidiaries are insignificant.

No audited accounts have been prepared for AHS for any period subsequent to 26th December, 1981.

### Historical cost accounts

**1. Accounting policies**

The historical cost accounts have been drawn up under the following principal accounting policies, which have been consistently applied in arriving at the financial information set out in this report:—

(i) Turnover
Turnover represents the invoice value (excluding value added tax) of amounts receivable in respect of the operation, design, installation and maintenance of heating plants and the management of customers' energy requirements.

(ii) Depreciation
The cost of fixed assets is written off over their expected useful lives as follows:—

| | |
|---|---|
| Freehold buildings | — straight line basis over 50 years |
| Leasehold property | — straight line basis over the lesser of 40 years or the period of the lease |
| Boiler plant at customers' premises | — straight line basis over the period of the contract |
| Other plant and equipment, including computer equipment | — straight line basis over periods varying from 4 to 12 years |
| Motor vehicles | — at 30 per cent. per annum on a reducing balance basis |

(iii) Government grants
Grants are deducted from the cost of the related assets.

(iv) Stocks
Stocks of fuel are stated at historical cost prices, after deducting rebates, computed on a first-in, first-out basis.

(v) Deferred taxation
Provision is made for deferred taxation using the liability method on short term timing differences and all other material timing differences which are not expected to continue in the future.

**2. Profit and loss accounts**

The profit and loss accounts of AHS for each of the four years ended 31st March, 1980, for the financial year ended 28th March, 1981, and for the 39 weeks ended 26th December, 1981 were as follows:—

| | Note | Financial year ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|---|---|---|---|
| Turnover | | 11,909 | 16,667 | 20,218 | 26,696 | 31,126 | 24,084 |
| Cost of sales | (i) & (ii) | 10,743 | 15,114 | 18,764 | 24,194 | 28,561 | 22,061 |
| Trading profit | | 1,166 | 1,553 | 1,454 | 2,502 | 2,565 | 2,023 |
| Net interest receivable | (iii) | 44 | 59 | 48 | 104 | 159 | 123 |
| Profit before management charges and taxation | | 1,210 | 1,612 | 1,502 | 2,606 | 2,724 | 2,146 |
| Management charges | | 84 | 119 | 144 | 192 | 228 | 172 |
| Profit before taxation | | 1,126 | 1,493 | 1,358 | 2,414 | 2,496 | 1,974 |
| Taxation | (iv) | 589 | 782 | 692 | 1,237 | 1,000 | 789 |
| Profit available for distribution | | 537 | 711 | 666 | 1,177 | 1,496 | 1,185 |
| Dividends | (v) | 75 | 150 | 150 | 225 | 300 | — |
| Retained profit | | 462 | 561 | 516 | 952 | 1,196 | 1,185 |
| Earnings per share | (vi) | 7.5p | 9.9p | 9.3p | 16.3p | 20.8p | 16.5p |

Notes on profit and loss accounts

(i) Cost of sales
Cost of sales is stated after charging:—

| | Financial year ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|---|---|---|
| Directors' fees | 4 | 4 | 6 | 6 | 6 | 5 |
| Amounts payable to shareholder companies for services of non-executive Directors | 9 | 9 | 9 | 9 | 9 | 7 |
| | 13 | 13 | 15 | 15 | 15 | 12 |
| Net charge in respect of replacement guarantee (see note (ii) below) | 197 | 221 | 306 | 332 | 395 | 295 |
| Depreciation | 153 | 224 | 359 | 381 | 527 | 441 |
| Auditors' remuneration | 8 | 10 | 11 | 12 | 16 | 15 |
| Provision for bad debts | 20 | 7 | 14 | 98 | 280 | 99 |
| and after crediting:— | | | | | | |
| Profit on holding stocks of fuel | 50 | 41 | 36 | 285 | 137 | 121 |

(ii) Replacement guarantee
Under certain heat supply contracts, AHS undertakes during the period of the contract to repair and replace certain items of boiler plant and equipment at the end of their useful lives. To provide for this contractual liability, AHS includes in the contract price a premium, calculated on the estimated current replacement cost of the items covered by the guarantee, which is charged against the revenue from the contract and credited to a special provision, any expenditure incurred being charged against the provision. At the expiry or earlier termination of each of the contracts the balance of provision on the contract concerned is released to profit and loss account.

(iii) Net interest receivable

| | Financial year ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|---|---|---|
| Interest receivable | 71 | 97 | 73 | 136 | 183 | 127 |
| Interest payable | 27 | 38 | 25 | 32 | 24 | 4 |
| Net interest receivable | 44 | 59 | 48 | 104 | 159 | 123 |

(iv) Taxation
The charge for taxation, based on profits for the periods, comprises:—

| | Financial year ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|---|---|---|
| Corporation tax | 628 | 665 | 782 | 1,101 | 1,137 | 789 |
| Deferred tax charge/(credit) | (39) | 117 | (90) | 136 | (137) | — |
| | 589 | 782 | 692 | 1,237 | 1,000 | 789 |

The provision for taxation for the 39 weeks ended 26th December, 1981 has been computed by applying to the profit for the period, adjusted for disallowable items, the estimated effective rate of corporation tax for the year ended 27th March, 1982.

(v) Dividends
An interim dividend for the financial year ended 27th March, 1982 amounting to £300,000 was declared on 25th March, 1982 and paid on 26th March, 1982, but has not been reflected in these accounts.

(vi) Earnings per share
Earnings per share have been calculated on the 7,200,000 Ordinary Shares of 25p each which will be in issue immediately prior to the Offer for Sale and on the profit available for distribution for each period. No account has been taken of the 800,000 new Ordinary Shares of 25p each to be subscribed and offered for sale to the public, nor of the net proceeds therefrom.

**3. Statement of source and application of funds**

The source and application of funds of AHS for each of the four years ended 31st March, 1980, for the financial year ended 28th March, 1981, and the 39 weeks ended 26th December, 1981 were as follows:—

| | Financial year ended 31st March, 1977 £000 | 1978 £000 | 1979 £000 | 1980 £000 | 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|---|---|---|
| *Source of funds* | | | | | | |
| Profit before taxation | 1,126 | 1,493 | 1,358 | 2,414 | 2,496 | 1,974 |
| Items not involving the movement of funds: | | | | | | |
| Depreciation | 153 | 224 | 359 | 381 | 527 | 441 |
| Increase in replacement guarantee provision | 129 | 100 | 95 | 159 | 250 | 107 |
| Proceeds of sale of fixed assets | 15 | 108 | 96 | 109 | 181 | 78 |
| Total sources | 1,423 | 1,925 | 1,908 | 3,063 | 3,454 | 2,600 |
| Application of funds | | | | | | |
| Working capital: | | | | | | |
| Increase/(decrease) in | | | | | | |
| Stocks | 95 | 152 | 91 | 664 | 385 | 121 |
| Debtors | 941 | 749 | 1,155 | 1,645 | 1,216 | (541) |
| Creditors | (237) | (310) | (141) | (781) | (255) | (58[illegible]) |
| Bills payable | (120) | 44 | (262) | (220) | 437 | 819 |
| | 679 | 635 | 843 | 1,308 | 1,783 | (18[illegible]) |
| Dividends paid | 30 | 75 | 150 | 150 | 100 | 200 |
| Additions to fixed assets | 231 | 676 | 455 | 685 | 1,270 | 1,351 |
| Tax paid | 276 | 768 | 701 | 772 | 1,036 | 1,168 |
| Total applications | 1,216 | 2,154 | 2,149 | 2,915 | 4,189 | 2,532 |
| Increase/(decrease) in net liquid funds | 207 | (229) | (241) | 148 | (735) | 68 |

**4. Balance sheet**

The balance sheet of AHS at 26th December, 1981 was as follows:—

| | Note | £000 | £000 |
|---|---|---|---|
| Fixed assets | (i) | | 2,515 |
| Interest in subsidiaries | (ii) | | 1 |
| Advance corporation tax recoverable | | | 96 |
| Current assets: | | | |
| Stocks | (iii) | 1,888 | |
| Debtors | | 7,451 | |
| Bank balances and cash | | 15 | |
| | | 9,354 | |
| Current liabilities: | | | |
| Bank overdraft | | 121 | |
| Creditors | (iv) | 3,915 | |
| Taxation | | 855 | |
| Dividends payable | (v) | 225 | |
| | | 5,116 | |
| Net current assets | | | 4,238 |
| | | | 6,850 |
| Replacement guarantee provision | | | 1,199 |
| Net tangible assets | | | 5,651 |
| Financed by: | | | |
| Share capital | (vi) | | 300 |
| Share premium account | | | 50 |
| Retained profits | | | 5,301 |
| Shareholders' funds | | | 5,651 |

Notes on the balance sheet:—

(i) Fixed assets

| | Cost £000 | Depreciation £000 | Net book amount £000 |
|---|---|---|---|
| Freehold property | 97 | 7 | 90 |
| Leasehold property | 55 | 14 | 41 |
| Boiler plant at customers' premises | 1,689 | 501 | 1,188 |
| Plant and equipment | 385 | 175 | 210 |
| Motor vehicles | 1,591 | 865 | 726 |
| Computer equipment | 260 | — | 260 |
| | 4,077 | 1,562 | 2,515 |

(ii) Interest in subsidiaries

| | £000 |
|---|---|
| Shares at cost | 1 |
| Amounts due from subsidiaries | 44 |
| | 45 |
| Less: provision for losses in subsidiaries | 44 |
| | 1 |

AHS has the following subsidiaries, all of which are wholly owned and are incorporated in England and none of which is now trading except A.H.S. Leasing Limited:—
A.H.S. Leasing Limited
Associated Heat Services (Central) Limited
Associated Heat Services (Northern) Limited
Associated Heat Services (Southern) Limited

(iii) Stocks

| | £000 |
|---|---|
| Solid fuel | 1,079 |
| Oil | 792 |
| Stores and sundry materials | 17 |
| | 1,888 |

(iv) Creditors
Creditors includes £499,000 due to the National Coal Board in respect of drawings under a credit facility made available to AHS as part of solid fuel promotional activity.

(v) Dividends payable
Dividends payable at 26th December, 1981 comprised:—

| | £000 |
|---|---|
| Final dividend for the financial year ended 28th March, 1981 | 225 |

(vi) Share capital
The share capital of AHS at 26th December, 1981 comprised:—

| | Authorised £ | Issued and fully paid £ |
|---|---|---|
| A shares of £1 each | 133,334 | 100,000 |
| B shares of £1 each | 133,333 | 100,000 |
| C shares of £1 each | 133,333 | 100,000 |
| | 400,000 | 300,000 |

Since 26th December, 1981 the following changes in share capital have taken place, or are proposed:—
(a) On 28th April, 1982 each of the existing "A", "B" and "C" shares was redesignated as, and sub-divided into four Ordinary Shares of 25p each; the authorised share capital was increased to £2,500,000 by the creation of 8,400,000 new Ordinary Shares of 25p each, and 6,000,000 new Ordinary Shares of 25p each were issued, credited as fully paid, to existing shareholders by way of capitalisation of share premium account (£50,000) and revenue reserves (£1,450,000).
(b) It is proposed that a further 800,000 new Ordinary Shares of 25p each will be issued and subscribed by S. G. Warburg & Co. Ltd. before being offered for sale to the public.

(vii) Deferred taxation
Potential taxation liabilities, which are not expected to crystallise in the future, exist in respect of:—

| | £000 |
|---|---|
| Accelerated capital allowances | 924 |
| Anticipated relief on expenditure not deductible for tax purposes until later years | (624) |
| | 300 |

# Associated Heat Services Plc

continued

(viii) **Capital commitments**

The Board of Directors had authorised future capital expenditure at 26th December, 1981 for which contracts have been placed amounting to £376,000. The Board had also given general approval under normal budgeting procedures, which is subject to ultimate authorisation by the Managing Director, for further capital expenditure which had not been contracted at 26th December, 1981 amounting to £190,000.

(ix) **Share issue expenses**

Costs attributable to AHS in connection with the proposed Offer for Sale are estimated to be £325,000, for which no provision has been made in these accounts. The Directors intend that these costs will be offset against the share premium account that will arise on the issue of the new Ordinary Shares.

## Current cost accounts

**1. Accounting policies**

(i) General

The current cost accounts have been prepared in accordance with SSAP 16 and, except as stated below, under the same accounting policies as those adopted for the historical cost accounts, as set out above.

(ii) Cost of sales adjustment

The cost of sales adjustment is the difference between cost calculated on the first-in, first-out method under the historical cost convention and the estimated cost if, using normal sources and methods of supply, the products sold and fuel consumed had been acquired at the time of sale.

(iii) Monetary working capital adjustment

Monetary working capital adjustment has been calculated using the average method to allow, in the profit and loss account, for the effect of price changes on the monetary working capital of AHS, which comprises trade debtors less trade creditors.

(iv) Depreciation adjustment

Additional depreciation has been calculated by applying price indices to the historical cost depreciation in order to charge profit and loss account with depreciation at a rate which reflects current costs.

(v) Gearing adjustment

The gearing adjustment represents that part of the current cost operating adjustment which is financed by borrowings, principally taxation, rather than by shareholders' funds. It is calculated by applying to those adjustments the proportion which average net borrowings bears to the total of net borrowings and shareholders' funds.

(vi) Valuation policies

Fixed assets are stated at current replacement cost calculated by applying price indices to the historical cost net book amount. Stocks are stated at current replacement cost calculated by applying price indices.

**2. Profit and loss accounts**

The profit and loss accounts of AHS for the financial year ended 28th March, 1981 and the 39 weeks ended 26th December, 1981 were as follows:–

| | Note | Financial year ended 28th March, 1981 £000 | 39 weeks ended 26th December, 1981 £000 |
|---|---|---|---|
| Historical cost profit before interest and taxation | | 2,337 | 1,851 |
| Current cost operating adjustments | (i) | 484 | 576 |
| Current cost operating profit | | 1,853 | 1,275 |
| Net interest receivable | | 159 | 123 |
| Gearing adjustment | | — | 65 |
| Current cost profit before taxation | | 2,012 | 1,463 |
| Taxation | | 1,000 | 789 |
| Current cost profit available for distribution | | 1,012 | 674 |
| Dividends | (ii) | 300 | — |
| Current cost result for the period | | 712 | 674 |
| Current cost earnings per share | (iii) | 14.1p | 9.4p |

Notes on profit and loss accounts

(i) Current cost operating adjustments

| | £000 | £000 |
|---|---|---|
| Depreciation adjustment | 134 | 103 |
| Cost of sales adjustment | 136 | 121 |
| Monetary working capital adjustment | 214 | 352 |
| | 484 | 576 |

(ii) Dividends

An interim dividend for the financial year ended 27th March, 1982 amounting to £300,000 was declared on 25th March, 1982, and paid on 26th March, 1982, but has not been reflected in these accounts.

(iii) Current cost earnings per share

Current cost earnings per share have been calculated on the 7,200,000 Ordinary Shares of 25p each which will be in issue immediately prior to the Offer for Sale and on the current cost profit available for distribution for each period. No account has been taken of the 800,000 new Ordinary Shares of 25p each to be subscribed and offered for sale to the public, nor of the net proceeds therefrom.

**3. Balance sheet**

The balance sheet of AHS at 26th December, 1981, prepared under the current cost convention, was as follows:–

| | Note | £000 | £000 |
|---|---|---|---|
| Fixed assets | (i) | | 2,731 |
| Interest in subsidiaries | | | 1 |
| Advance corporation tax recoverable | | | 96 |
| Net current assets | | | |
| Stocks | | 1,891 | |
| Monetary working capital (net) | | 3,934 | |
| Bank borrowings (net) | | (106) | |
| Taxation | | (855) | |
| Dividends payable | | (225) | |
| Other current liabilities (net) | | (398) | |
| Net current assets | | | 4,241 |
| | | | 7,069 |
| Replacement guarantee provision | | | 1,199 |
| Net tangible assets | | | 5,870 |
| Financed by: | | | |
| Share capital | | | 300 |
| Share premium account | | 50 | |
| Current cost reserve | (ii) | 1,215 | |
| Other reserves | | 4,305 | |
| | | | 5,570 |
| Shareholders' funds | | | 5,870 |

Notes on the balance sheet

(i) Fixed assets

| | Estimated replacement cost £000 | Depreciation £000 | Net book amount £000 |
|---|---|---|---|
| Freehold and leasehold properties | 226 | 44 | 182 |
| Plant, equipment and vehicles | 4,758 | 2,209 | 2,549 |
| | 4,984 | 2,253 | 2,731 |

(ii) Current cost reserve

| | £000 |
|---|---|
| Revaluation of assets | 457 |
| Cost of sales adjustments | 257 |
| Monetary working capital adjustment | 566 |
| Gearing adjustment | (65) |
| | 1,215 |

Yours faithfully,
Ernst & Whinney,
Chartered Accountants.

## Appendix I – Estimates for the year ended 27th March, 1982

**1. Bases and assumptions**

The estimates of turnover, profit and earnings of the Company and its subsidiaries for the year ended 27th March, 1982 included in this Offer for Sale are based upon audited results for the 39 weeks ended 26th December, 1981 and unaudited results shown by management accounts for the 13 weeks ended 27th March, 1982.

It has been assumed that no material adjustment to the management accounts will arise during the audit and that no unforeseen event will occur before the date of issue of the audited accounts which will require any material adjustment.

**2. Reports**

The following are copies of reports to the Directors of AHS relating to the estimates for the year ended 27th March, 1982:–

(a) Letter from the auditors and reporting accountants dated 28th April, 1982:–

The Directors,
Associated Heat Services Plc,
2 Salisbury Road,
Wimbledon,
London SW19 4EZ.

28th April, 1982.

Gentlemen,

We have reviewed the accounting bases and calculations for the estimates of turnover, profit and earnings (for which you, as Directors, are solely responsible) of Associated Heat Services Plc ("AHS") for the year ended 27th March, 1982 contained in the Offer for Sale to be dated 29th April, 1982. In our opinion the estimates, so far as the accounting bases and calculations are concerned, have been properly compiled on the footing of the assumptions set out in Appendix I of the Offer for Sale, and are presented on a basis consistent with the accounting policies adopted by AHS.

Yours faithfully,
Ernst & Whinney,
Chartered Accountants.

(b) Letter from S. G. Warburg & Co. Ltd. dated 28th April, 1982:–

The Directors,
Associated Heat Services Plc,
2 Salisbury Road,
Wimbledon,
London SW19 4EZ.

28th April, 1982.

Gentlemen,

We have discussed with you and with Ernst & Whinney the estimates of turnover, profit and earnings of Associated Heat Services Plc for the financial year ended 27th March, 1982. We consider that such estimates (for which you, as Directors, are solely responsible) have been made after due and careful enquiry.

Yours faithfully,
for S. G. WARBURG & CO. LTD.,
A. C. R. Elliott,
Director.

## Appendix II – Statutory and general information

**1. Share capital**

(i) AHS was incorporated in England as a private company on 8th July, 1966, under the Companies Act 1948, and was re-registered as a public company on 21st April, 1982. Its registered number is 883131.

(ii) There have been the following changes in the authorised and issued share capital of the Company during the two years preceding the date of this Offer for Sale:–

(a) by or pursuant to Special Resolutions passed on 28th April, 1982, each of the existing 133,334 "A" Class Shares of £1 each, 133,333 "B" Class Shares of £1 each and 133,333 "C" Class Shares of £1 each in the share capital was re-designated as and sub-divided into four Ordinary Shares of 25p each; the authorised share capital of £400,000 of AHS was increased to £2,500,000 by the creation of 8,400,000 new Ordinary Shares of 25p each; and 6,000,000 new Ordinary Shares of 25p each were issued, credited as fully paid, to existing holders of Ordinary Shares, pro rata to their existing holdings, on the basis of 5 new Ordinary Shares of 25p each for each Ordinary Share already held, by way of capitalisation of £50,000 standing to the credit of share premium account and £1,450,000 standing to the credit of revenue reserves;

(b) under the terms of the Sale and Subscription Agreement, referred to in paragraph 6 of this Appendix, S. G. Warburg & Co. Ltd. conditionally agreed on 29th April, 1982 to subscribe for 800,000 new Ordinary Shares of 25p each of AHS at a price per share equal to 3.45p below the striking price under the Offer for Sale.

(iii) Immediately following this Offer for Sale, the authorised share capital of the Company will be £2,500,000 divided into 10,000,000 Ordinary Shares of 25p each. The issued share capital will be £2,000,000 divided into 8,000,000 Ordinary Shares of 25p each.

(iv) Save as disclosed in sub-paragraph (ii) above:–

(a) no share or loan capital of the Company or of any of its subsidiaries has been issued within the two years immediately preceding the date of this Offer for Sale or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries within the two years immediately preceding the date of this Offer for Sale in connection with the issue or sale of any share or loan capital of such companies; and

(c) no capital of the Company or of any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

(v) By a Special Resolution of the Company passed on 28th April, 1982:–

(a) the Board was generally and unconditionally authorised pursuant to Section 14 of the Companies Act 1980 for a period of five years from that date to allot unissued shares up to a maximum nominal amount of £2,200,000; of which £1,700,000 has been allotted as described in sub-paragraph (ii) above; and

(b) the Board is empowered, pursuant to Section 18 of the Companies Act 1980, to allot shares pursuant to the above authority as if Section 17 (1) of that Act did not apply. This power expires on 31st December, 1983 and is limited to: the allotment of shares to or to the order of S. G. Warburg & Co. Ltd. pursuant to the Sale and Subscription Agreement referred to in paragraph 6 of this Appendix; allotments in connection with rights issues pro rata to Ordinary Shareholders; or otherwise to the allotment of a maximum of £125,000 nominal amount of share capital.

(vi) No material issue of shares of the Company (other than consequent upon an offer to shareholders pro rata to their existing shareholdings) will be made within one year of the date of this Offer for Sale without prior approval of the Company in General Meeting.

(vii) Following this Offer for Sale, 2,000,000 Ordinary Shares of 25p each of the Company will remain unissued but no issue of such shares which would effectively alter the control of the Company will be made without prior approval of the Company in General Meeting.

**2. Articles of Association**

The Articles of Association of the Company contain, inter alia, provisions to the following effect:–

**Voting rights**

Subject to any terms as to voting upon which any shares may be issued, or may for the time being be held, at any General Meeting every Member present in person shall have one vote on a show of hands, and on a poll every Member shall have one vote for every 25p nominal amount of share capital of which he is the holder. The duly authorised representative of a corporate Member may exercise the same powers on behalf of that corporation as it could exercise if it were an individual Member. A Member is not entitled to vote unless all calls due from him have been paid, or in respect of any shares held by him in relation to which he or any other person appearing to be interested in shares has been duly served with a notice under Section 74 of the Companies Act 1981 and fails to supply the Company with the information thereby required within the period specified in such notice, being not less than 28 days from the date of service of such notice.

**Power to appoint Directors**

For as long as it shall hold 20 per cent. or more in nominal amount of the issued Ordinary Share capital of the Company each of the NCB and CGC shall be entitled to appoint up to two Directors and to remove them. Directors so appointed are not subject to retirement by rotation.

**Directors**

(a) Subject to any Ordinary Resolution of the Company, the Directors shall be not less than three nor more than fifteen in number.

(b) Save as mentioned below, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

(c) A Director (in the absence of material interests other than those indicated below) shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

(i) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(iv) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed to be a material interest in all circumstances);

(v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes, and

(vi) any arrangement for the benefit of employees of the Company or any of its subsidiaries under which he may benefit in a similar manner to employees.

(d) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (if not debarred from voting under the proviso to paragraph (c)(iv) above) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(e) If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

(f) The Company may by Ordinary Resolution suspend or relax the above provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(g) A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to attend and speak at General Meetings.

(h) The Directors (other than those who shall for the time being hold an executive office or employment under the Company or any subsidiary) shall be paid such remuneration for their services as Directors as may be determined by the Board save that, unless otherwise approved by the Company by Ordinary Resolution, the aggregate amount of such remuneration to all Directors shall not exceed £60,000 per annum. The Directors shall also be entitled to be repaid by the Company all such reasonable travelling (including hotel and incidental) expenses as they may incur in attending meetings of the Board, or of committees of the Board, or General Meetings, or which they may otherwise properly incur in or about the business of the Company. Any Director who by request of the Board performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.

(i) The Directors may (by the establishment or maintenance of schemes or otherwise) pay or procure the payment of pensions, annuities, allowances, gratuities or other benefits to or for the benefit of past or present Directors or employees of the Company or any of its subsidiaries or any company associated with, or any business acquired by, any of them, or to or for the benefit of persons who were related to or dependants of any such Directors or employees.

(j) No person shall be or become incapable of being appointed a Director by reason of his having attained the age of seventy or any other age, nor shall special notice be required in connection with the appointment of such person and no Director shall vacate his office at any time by reason of the fact that he has attained the age of seventy or any other age.

**Borrowing powers**

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries so far as by such exercise it can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group (being the Company and its subsidiaries for the time being) exclusive of moneys borrowed by any member of the Group from and for the time being owing to any other member of the Group, shall not at any time without the previous sanction of an Ordinary Resolution of the Company exceed an amount equal to twice the aggregate of the amount paid up on the issued share capital of the Company and the amount standing to the credit of the consolidated capital and revenue reserves of the Company and its subsidiaries (including retained earnings), all as shown in the latest audited consolidated balance sheet for the Company and its subsidiaries but after making certain adjustments specified in the Articles.

**3. Subsidiary companies**

The subsidiary companies of AHS, none of whose shares are listed on a stock exchange, all of which are wholly owned and all of which are dormant, except for A.H.S. Leasing Limited (which has two small current leasing contracts), are as follows:–

| Name | Place and Date of Incorporation | Issued Share Capital |
|---|---|---|
| A.H.S. Leasing Limited | England, 31.12.1971 | £4 |
| Associated Heat Services (Central) Limited | England, 2.12.1965 | £18,100 |
| Associated Heat Services (Northern) Limited | England, 15.10.1968 | £100 |
| Associated Heat Services (Southern) Limited | England, 27.11.1969 | £100 |

**4. Directors' interests**

(i) No Director of AHS has any beneficial or non-beneficial interest, as defined by the Companies Act 1967 (as amended), in the share capital of AHS or any of its subsidiaries.

(ii)(a) No Director of AHS has or has had any interest in any assets which, within two years before the date of this Offer for Sale, have been, or are proposed to be, acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

(b) No contract or arrangement subsists in which a Director of AHS is materially interested and which is significant in relation to the business of the Company and its subsidiaries taken as a whole.

(iii) Mr. B. Chad Smith has a service agreement with AHS the term of which commenced on 1st April, 1981 and will terminate on 1st April, 1984. The salary presently payable to Mr. Chad Smith under this agreement is £19,482 per annum. Save as aforesaid, there are no existing or proposed service contracts between any of the Directors of the Company and AHS or any of its subsidiaries, other than service contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation).

In the year ended 27th March, 1982 the aggregate remuneration of the Directors amounted to £21,083. The aggregate remuneration in respect of the year ending 26th March, 1983 is expected to amount to £94,000; the increase over the 1981/82 figure will result in the main from the appointment as Directors on 28th April, 1982 of three of the principal executives of the Company, none of whom were for statutory purposes Directors prior to that date.

**5. Other significant interests**

Save for the interests of the NCB and CGC which will, on completion of this Offer for Sale, each beneficially own 2,400,000 Ordinary Shares of 25p each (30 per cent. of the issued Ordinary Share capital), the Directors are not aware of any shareholdings, which, following the Offer for Sale, will represent 5 per cent. or more of the issued Ordinary Share capital.

**6. Sale and Subscription Agreement**

S. G. Warburg & Co. Ltd. ("Warburgs") has agreed, subject to the Council of The Stock Exchange admitting the Ordinary Shares of the Company to the Official List not later than 12th May, 1982, to purchase from Cory a total of 2,400,000 Ordinary Shares, and to subscribe 800,000 new Ordinary Shares, in each case at a price per share equal to 3.45p per share below the striking price, and to offer all such shares for sale to the public by tender at a minimum tender price of 230p per share. The costs and expenses of and incidental to this Offer for Sale include the cost of preparing, printing, circulating and advertising this prospectus and other documents in connection therewith, the increase in and reorganisation of the share capital of the Company and associated capital duty, the adoption of new Articles of Association, all accounting and legal expenses, the receiving bankers' and registrars' fees and expenses, the fees payable to The Stock Exchange and a fee to Warburgs. These costs and expenses are estimated to amount to £475,000 (exclusive of Value Added Tax) and will be borne as to two thirds by AHS and as to one third by Cory, save that AHS will bear the capital duty and listing fees. Warburgs will pay commissions to underwriters of 1¼ per cent. on the minimum tender price of each share and a commission to the brokers. Cory will pay all ad valorem stamp duty on the transfers to the ultimate purchasers of registered shares included in the Offer for Sale and its own legal expenses.

**7. Material contract**

The following contract, not being a contract entered into in the ordinary course of business, has been entered into within two years immediately preceding the date of this Offer for Sale and is, or may be, material:–

Dated 29th April, 1982 between Cory and others (1), the NCB, Cory and CGC (2), the Directors (3), the Company (4) and Warburgs (5), being the Sale and Subscription Agreement referred to in paragraph 6 above.

**8. Premises**

The Company owns one freehold property and leases or has licences in respect of twenty premises throughout the United Kingdom, at annual costs (except as stated below) of between £250 and £7,000. The tenure of the premises (other than those listed below) varies from one month's notice to approximately 25 years. The total annual rental and licence costs of all premises (other than freehold property) was approximately £115,300 as at 27th March, 1982.

Details of AHS's freehold and principal longer leasehold premises are as follows:–

| Description | Tenure | Area |
|---|---|---|
| Head Office, 2 Salisbury Road, Wimbledon, London SW19 4EZ | 25 year lease from 25th December, 1981 at an annual rental of £29,000 subject to rent reviews in every fifth year. | 3,700 sq. ft. of offices together with car park space. |
| North Yorkshire Area Office, Oakenshaw Lane, Crofton, Wakefield WF4 1FE | Freehold. | 8,000 sq. ft. of offices, 4,800 sq. ft. of workshops, 5,000 sq. ft. of stores together with car park space. |
| West London Area Office, 8-10 Wood Lane, Isleworth, Middlesex TW7 5ER | 21 year lease from 20th October, 1975 at an annual rental of £18,000 subject to rent reviews in every third year. | 2,179 sq. ft. of offices, 4,500 sq. ft. of workshops and stores, together with car park space. |
| East London Area Office, Unit 7, Bermondsey Trading Estate, Rotherhithe New Road, Bermondsey, London SE16 3LL | 25 year lease from 2nd May, 1978 at an annual rental of £13,800 subject to rent reviews at four year intervals until 1990 and thereafter at three year intervals, the next falling due in May 1982. | 2,179 sq. ft. of offices, 4,498 sq. ft. of workshops and stores, together with car park space. |

**9. Taxation**

The Company has not since its incorporation been a close company, as defined by Section 282 of the Income and Corporation Taxes Act 1970, and following the Offer for Sale will not be a close company.

**10. General**

(i) In this document the word "year" means, where appropriate, the financial year of AHS.

(ii) So far as the Directors are aware, no litigation or claims of material importance are pending or threatened against the Company or any of its subsidiaries.

(iii) Warburgs and Ernst & Whinney have given and have not withdrawn their written consents to the issue of this Offer for Sale with the inclusion herein respectively of their letter and their letter and report and the references thereto and to their names in the form and context in which they are respectively included.

(iv) The documents attached to the copies of this Offer for Sale delivered to the Registrar of Companies for registration were the written consents referred to in sub-paragraph (iii) above, the statement of Ernst & Whinney setting out the adjustments made in arriving at the figures contained in their report (as set out herein) and giving the reasons therefor, copies of the application forms and copies of the material contract referred to in paragraph 7 above.

(v) A Certificate of Exemption has been granted by the Council of The Stock Exchange pursuant to Section 39 of the Companies Act 1948.

**11. Documents available for inspection**

The Sale and Subscription Agreement and copies of the following documents may be inspected at the offices of Freshfields, Grindall House, 25 Newgate Street, London EC1A 7LH and Ronald V. Cowles, Hobart House, Grosvenor Place, London SW1X 7AE during usual business hours on any weekday, Saturdays and public holidays excepted, for a period of fourteen days following the date of this Offer for Sale:–

(i) the Memorandum and Articles of Association of the Company;

(ii) the audited accounts of AHS for the two years ended 28th March, 1981 and nine months ended 26th December, 1981;

(iii) the Accountants' Report and statement of adjustments relating thereto;

(iv) the service agreement mentioned in paragraph 4(iii) above; and

(v) the letters and written consents referred to in paragraph 10(iii) above.

**Dated 29th April, 1982**

## Procedure for application

1. Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares:–

Applications for not more than 1,000 shares: in multiples of 100 shares;

Applications for over 1,000 shares and not more than 10,000 shares: in multiples of 500 shares;

Applications for over 10,000 shares and not more than 25,000 shares: in multiples of 1,000 shares;

Applications for over 25,000 shares and not more than 100,000 shares: in multiples of 5,000 shares;

Applications for over 100,000 shares: in multiples of 10,000 shares.

2. Applications must be made on the accompanying Application Form at the minimum tender price of 230p per share or at any higher price which is a whole multiple of 5p.

3. Applications must be forwarded to Regis Securities, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, so as to arrive not later than 10 a.m. on Friday, 7th May, 1982, or may be lodged by hand at Regis Securities, Eldon Street House, Eldon Street, London EC2P 2AY by that date and time.

4. Each application must be accompanied by a separate cheque or banker's draft for the full amount of the price tendered (drawn in sterling on a bank or branch thereof in, and payable in, England, Scotland or Wales or drawn on a clearing bank branch in the Channel Islands or the Isle of Man). Cheques or bankers' drafts must be made payable to "Regis Securities" and crossed "Not Negotiable". S. G. Warburg & Co. Ltd. reserves the right to present all cheques for payment on receipt and to retain Letters of Acceptance and surplus application moneys pending such clearances. Due completion and delivery of an Application Form accompanied by a cheque will constitute a warranty that the cheque will be honoured on first presentation; attention is drawn to the declaration in the Application Form to that effect. Applications will be irrevocable until 14th May, 1982.

5. Subject as aforesaid and as mentioned below, applications will be accepted on the following basis:–

(a) All shares for which applications are wholly or partly accepted will be sold at the same price ("the striking price"), which will not be less than the minimum tender price of 230p per share. The striking price will not necessarily be the highest price at which sufficient applications (including applications at higher prices) are received to cover the total number of shares offered under the Offer for Sale. In deciding the striking price and the basis of allocation, S. G. Warburg & Co. Ltd. will have regard to the need to establish a market in the shares, for which purpose a reasonable number of shareholders is required.

(b) S. G. Warburg & Co. Ltd. reserves the right to refuse any application, in whole or part, regardless of the application price; multiple applications at any one price are liable to be rejected.

(c) Applications for shares at prices less than the striking price will receive no allocation of shares.

(d) If applications are received for less than the total number of shares offered, the striking price will be the minimum tender price of 230p per share.

(e) The striking price and the basis of allocation will be announced on or as soon as possible after 12th May, 1982.

6. Preferential consideration will be given to applications received from employees (including executive Directors and retired pensioners) of the Company up to a total of 250,000 shares if made on the special pink application forms made available to them. These will specify the amount of money to be expended, rather than the number of shares applied for, and will confer preferential consideration for such number of shares per employee as, at the striking price, can be purchased for a maximum of £20,000. Shares reserved for applications received from employees will be allocated to them at the striking price. In the event of excess applications from employees, the basis of allocation will be decided by S. G. Warburg & Co. Ltd.

7. Acceptance of applications will be conditional on the Council of The Stock Exchange admitting the Ordinary Shares of the Company to the Official List not later than 12th May, 1982. Moneys paid in respect of applications will be returned if such condition is not satisfied and in the meantime will be retained by Regis Securities in a separate account. If any application is not accepted or is accepted for fewer shares than the number applied for or is made at a price higher than the striking price, the application moneys or the balance thereof, as the case may be, will be returned through the post at the applicant's risk. It is expected that Letters of Acceptance will be posted to successful applicants by Thursday, 13th May, 1982.

8. Arrangements have been made for the registration by the Company of the shares now offered for sale, free of stamp duty, in the names of applicants or persons in whose favour Letters of Acceptance have been renounced, provided that, in cases of renunciation, Letters of Acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration not later than 23rd June, 1982. Share certificates will be issued on 23rd July, 1982.

Copies of this Offer for Sale with Forms of Application may be obtained from:–

S. G. Warburg & Co. Ltd., 30 Gresham Street, London EC2P 2EB.

Rowe & Pitman, City Gate House, 39-45 Finsbury Square, London EC2A 1JA.

Outside London, copies are available from the following branches of National Westminster Bank PLC:–

262 Union Street, Aberdeen AB1 1TP.

Colmore Centre, 103 Colmore Row, Birmingham B3 3NS.

32 Corn Street, Bristol BS99 7UG.

80 George Street, Edinburgh EH2 3DZ.

14 Blythswood Square, Glasgow G2 4AQ.

8 Park Row, Leeds LS1 1QS.

22 Castle Street, Liverpool L69 2BE.

55 King Street, Manchester M60 2DB.

## APPLICATION FORM

The application list for the Ordinary Shares now offered for sale will open at 10 a.m. on Friday, 7th May, 1982 and may be closed at any time thereafter.

This Form, duly completed, together with a cheque or banker's draft (drawn in sterling on a bank or branch thereof in, and payable in, England, Scotland or Wales or drawn on a clearing bank branch in the Channel Islands or the Isle of Man) made payable to "Regis Securities" and crossed "Not Negotiable," representing payment in full at the price tendered, should be lodged with Regis Securities, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ not later than 10 a.m. on Friday, 7th May, 1982 or may be lodged by hand at Regis Securities, Eldon Street House, Eldon Street, London, EC2P 2AY by that date and time. A separate cheque or banker's draft must accompany each application. No application can be considered unless these conditions are fulfilled. All cheques are liable to be presented for payment.

# Associated Heat Services Plc

(Incorporated under the Companies Act 1948, No. 883131)

## Offer for Sale by Tender by S. G. Warburg & Co. Ltd.

of 3,200,000 Ordinary Shares of 25p each at a minimum tender price of 230p per share, payable in full on application.

Please fill in number of shares applied for, price per share at which applied for, and amount of attached cheque

Application: must be for a minimum of 100 shares or for the following multiples of shares. Applications for not more than 1,000 shares: in multiples of 100 shares. Applications for over 1,000 shares and not more than 10,000 shares: in multiples of 500 shares. Applications for over 10,000 shares and not more than 25,000 shares: in multiples of 1,000 shares. Applications for over 25,000 shares and not more than 100,000 shares: in multiples of 5,000 shares. Applications for over 100,000 shares: in multiples of 10,000 shares. The price per share tendered must be 230p, or a higher price which is a whole multiple of 5p. No application for any other number of shares can be considered and the right is reserved to reject any application, in particular multiple or suspected multiple applications.

| ★Number of shares applied for | ★★Price per share at which applied for | ★★★Amount enclosed |
|---|---|---|
| | | £ |

| For Office Use Only |
|---|
| 1. Acceptance Letter No. |
| 2. No. of shares accepted |
| 3. Amount received £ |
| 4. Amount payable £ |
| 5. Amount returned £ |
| 6. Cheque No. |

Please pin your cheque here

To: S. G. WARBURG & CO. LTD.

I/We enclose a cheque or banker's draft for the above-mentioned sum ★★★, being the amount payable in full on application for the above stated number ★ of Ordinary Shares of 25p each of Associated Heat Services Plc ("the Company") at the above indicated price ★★ per share. I/We offer to purchase that number of such shares on the terms of your Offer for Sale dated 29th April, 1982 and subject to the Memorandum and Articles of Association of the Company and I/we hereby undertake and agree to accept the same or any lesser number in respect of which this application may be accepted at the striking price. I/We hereby authorise you to procure my/our name(s) to be placed on the Register of Members of the Company as holder(s) of such of the said shares the right to which is not effectively renounced, and authorise you to send a renounceable Letter of Acceptance in respect thereof, and/or a cheque for any moneys returnable, by post at my/our risk to the address given in the box below.

In consideration of S. G. Warburg & Co. Ltd. agreeing to accept applications upon the terms and subject to the conditions of the said Offer for Sale for an aggregate number of 3,200,000 Ordinary Shares of 25p each of the Company, I/we agree that this application shall be irrevocable until 14th May, 1982 and that this paragraph shall constitute a collateral contract between me/us and S. G. Warburg & Co. Ltd. which shall become binding upon despatch by mail or delivery of this application form to Regis Securities duly completed.

I/We understand that due completion and delivery of this Application Form accompanied by a cheque will constitute a warranty that the cheque will be honoured on first presentation. I/We acknowledge that the Letters of Acceptance and cheques for any moneys returnable may be held pending clearance of applicants' cheques.

Dated ............ May, 1982 1. Signature ............

Please use Block Capitals

Christian or Forename(s) (in full) ............

Surname (Mr., Mrs., Miss or Title) ............

Address (in full) ............

(In the case of Joint Applications all further applicants must sign and complete below)

2. Signature ............ Christian or Forename(s) (in full) ............ Surname ............ Address (in full) ............ Mr., Mrs., Miss or Title ............

3. Signature ............ Christian or Forename(s) (in full) ............ Surname ............ Mr., Mrs., Miss or Title ............ Address (in full) ............

4. Signature ............ Christian or Forename(s) (in full) ............ Surname ............ Mr., Mrs., Miss or Title ............ Address (in full) ............

A Corporation should sign under the hand of a duly authorised official who should state his representative capacity.

No receipt will be issued for the payment on application, but an acknowledgement will be forwarded through the post in due course, either by a fully paid Letter of Acceptance for all the shares applied for, or by a fully paid Letter of Acceptance for part of the shares applied for, and in either case a cheque for any surplus application money, or by the return by cheque of the application money, in each case at the risk of the applicant(s).

# CURRENCIES, MONEY and GOLD

### MONEY MARKETS

## A nervous calm

INTEREST RATES showed little change in subdued London money market trading last week. The total shortage of credit was around £750m, compared with £3bn the previous week, and this helped to improve market sentiment, although conditions were still completely overshadowed by the Falkland Islands crisis. Economic news has been very favourable lately, including a downward trend in inflation, and under difficult circumstances a cut of up to 1 per cent could probably be expected in the clearing bank base lending rates.

In these nervous conditions the authorities were probably quite happy to see three-month interbank money stay unchanged at 13⅞ per cent, while seven-day funds fell to 12⅞ per cent from 13½ per cent.

Discount houses reacted to the nervous conditions by showing an increased desire to sell paper ahead of the holiday weekend. At the same time the overall situation was fairly quiet, and this seems likely to remain the case until the Falklands question is settled. On Monday the market was faced with a shortage of about £450m, but conditions were much easier later in the week, including a surplus of £50m on Wednesday.

In Europe interest rates were mixed, with Swiss rates declining, but French rates showing a slight reversal of the recent downward trend. On Monday Paris call money rose to 16⅜ per cent from 16⅛ per cent, after a cut of ¼ per cent the previous week following the French francs better performance in the European Monetary System.

In Amsterdam interest rates had a firmer tone in reaction to the tightening of domestic liquidity, although any general trend is likely to reflect the performance of the guilder against the D-mark.

Conditions also tended to tighten in Frankfurt as a result of the draining of money market funds through demand for commercial bank's reserve asset requirements at the end of the month, and the unwinding of a DM 5.5bn repurchase agreement.

U.S. interest rates were also nervous and volatile, but despite difficult conditions on Wednesday and a sharp rise in Federal funds rate on make-up day, market sentiment pointed towards a low trend and seemed prepared for any rise of up to $3bn in the weekly money supply.

### WEEKLY CHANGE IN WORLD INTEREST RATES

| | Apr. 30 | change | | Apr. 30 | change |
|---|---|---|---|---|---|
| **LONDON** | | | **NEW YORK** | | |
| Base rates | 13 | | Prime rates | 16½ | Unch'd |
| 7 day interbank | 12⅞-13 | -⅛ | Federal funds | 15⅛-15½ | -⅝ |
| 3 mth interbank | 13¾-13⅞ | Unch'd | 3 mth Treasury Bills | 12.32 | +0.04 |
| Treasury Bill Tender | 12.9765% | +0.0855 | 6 mth Treasury Bills | 12.46 | +0.06 |
| Band 1 Bills | 13⅛ | Unch'd | 3 Mth. CD | 14.25 | Unch'd |
| Band 2 Bills | 13⅛ | Unch'd | **FRANKFURT** | | |
| Band 3 Bills | 12⅞ | | Special Lombard | 9.5 | Unch'd |
| 3 Mth. Treasury Bills | 13-13⅛ | +⅛ | One Mth. Interbank | 9.30 | -0.075 |
| 1 Mth. Bank Bills | 13⅛ | +⅛ | Three month | 9.325 | -0.05 |
| 3 Mth. Bank Bills | 13⅛ | +⅛ | **PARIS** | | |
| **TOKYO** | | | Intervention Rate | 16 | Unch'd |
| One month Bills | 7.21875 | Unch'd | 1 Mth. Interbank | 16⅛ | +⅛ |
| Three month Bills | 7.09625 | Unch'd | Three month | 16⅞ | +⅛ |
| **BRUSSELS** | | | **MILAN** | | |
| One month | 14½ | Unch'd | One month | 20¾ | -⅛ |
| Three month | 15 | Unch'd | Three month | 20⅞ | -⅛ |
| **AMSTERDAM** | | | **DUBLIN** | | |
| One month | 8⅞ | +⅛ | One month | 20⅛ | -⅜ |
| Three month | 8¾ | +⅛ | Three month | 20⅛ | -⅜ |

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market, and their respective changes during the week. *Band 4 12⅞.

### BANK OF ENGLAND TREASURY BILL TENDER

| | April 30 | April 23 | | April 30 | April 23 |
|---|---|---|---|---|---|
| Bills on offer | £100m | £100m | Top accepted rate of discount | 13.0558% | 12.9554% |
| Total of applications | £375.89m | £655.585m | Average rate of discount | 12.9765% | 12.8910% |
| Total allocated | £100m | £100m | Average yield | 13.41% | 13.32% |
| Minimum accepted bid | £96.745 | £96.775 | Amount on offer at next tender | £100m | £100m |
| Allotment at minimum level | 23% | 4% | | | |

### FT LONDON INTERBANK FIXING

| 3 months U.S. dollars | |
|---|---|
| bid 14 15/16 | offer 15 1/16 |
| **6 months U.S. dollars** | |
| bid 14 7/8 | offer 15 |

The fixing rates (April 16) are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

### LONDON MONEY RATES

| April 29 1982 | Sterling Certificate of deposit | Interbank | Local Authority deposits | Local Auth. negotiable bonds | Finance House Deposits | Company Deposits | Discount Market Deposits | Treasury Bills ♦ | Eligible Bank Bills ♦ | Fine Trade Bills ♦ |
|---|---|---|---|---|---|---|---|---|---|---|
| Overnight | — | 11½-15 | 12⅜-12½ | — | — | 12½ | 11½-15 | — | — | — |
| 2 days notice | — | — | 13⅛-13¼ | — | — | — | — | — | — | — |
| 7 days or | — | — | — | — | — | — | — | — | — | — |
| 7 days notice | — | 12⅞-13 | 13⅛ | — | 13⅝ | 13⅛ | 12¾-13⅛ | — | — | — |
| One month | 13½-13⅜ | 13⅛-13¼ | 13⅜ | 14⅛-14 | 13⅝ | 13⅛ | 12⅞-12⅝ | 13⅛ | 13⅛-13 | 14 |
| Two months | 13⅜-13⅝ | 13⅜-13⅝ | [illegible] | 14⅛-13⅞ | 13⅝ | — | 12⅞ | 13-13⅛ | 13⅛-13⅝ | 13⅞ |
| Three months | 13⅜-13⅝ | 13¾-13⅞ | 13⅝ | 14⅛-13⅞ | 13¾ | 14⅛ | 12⅞ | 13-13⅛ | 13⅛ | 13⅞ |
| Six months | 13⅞-13⅝ | 13⅞-13⅞ | 13⅝ | 13⅞-13⅝ | 13⅞ | — | — | — | 12⅞-12⅝ | 13⅝ |
| Nine months | 13¾-13⅝ | 13⅞-13⅞ | — | 14⅛-13⅞ | 13⅞ | — | — | — | — | — |
| One year | 13⅞-13⅝ | 13⅞-13⅞ | 13⅝ | 14-13⅞ | 13⅞ | — | — | — | — | — |
| Two years | — | — | 14 | — | — | — | — | — | — | — |

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 14⅛ per cent; four years 14⅛ per cent; five years 14⅛ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 13⅛-13⅛ per cent; four months trade bills 13⅞ per cent.

Approximate selling rates for one month Treasury bills 12⅞ per cent; two months 12⅞-12⅞ per cent; three months 12⅞ per cent. Approximate selling rate for one month bank bills 12⅞ per cent; two months 12⅞-12⅞ per cent; and three months 12⅞ per cent; one month trade bills 13⅞ per cent; two months 13⅞ per cent; three months 13⅞ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 14 per cent from May 1 1982. London and Scottish Clearing Bank Rates for lending 13 per cent. London Clearing Bank Deposit Rates for sums at seven days' notice 10-10¼ per cent. Treasury Bills: Average tender rates of discount 12.9765 per cent. Certificates of Tax Deposit (Series 5) 13¼ per cent from March 6. Deposits withdrawn for cash 11 per cent.

### EURO-CURRENCY INTEREST RATES (Market closing Rates)

| April 30 | Sterling | U.S. Dollar | Canadian Dollar | Dutch Guilder | Swiss Franc | D-mark | French Franc | Italian Lira | Belgian Franc Conv. | Belgian Franc Fin. | Yen | Danish Krone |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Short term | 13-13¼ | 15¼-15½ | 15¼-15¾ | 9⅛-9¼ | 2¼-2¾ | 9⅛-9⅜ | 18-20 | 17½-19½ | 15-16¼ | 14⅞-15⅜ | 6⅞-7 | 15½-15¾ |
| 7 days' notice | 13⅛-13⅜ | 15⅛-15⅜ | 15¼-15¾ | 8⅞-9 | 3½-3⅞ | 9⅛-9¼ | 18-20 | 23½-27¾ | 15⅛-16 | 14¼-15 | 6⅞-7 | 16¼-16¾ |
| Month | 13⅜-13⅝ | 14⅞-15⅛ | 15½-15¾ | 8¾-8⅞ | 3⅝-3¾ | 8⅞-9 | 22-23½ | 24¼-26 | 16-17 | 14⅞-14⅞ | 6⅞-7 | 19⅞-20¼ |
| Three months | 13⅝-13⅞ | 14¾-15 | 15½-15⅞ | 8⅞-9 | 4⅛-4¼ | 8⅞-9 | 22-23½ | 24¾-25¾ | 16¾-17 | 14⅞-14⅞ | 6¾-7 | 19⅞-20½ |
| Six months | 13¾-13⅞ | 14⅞-15 | 15¼-15¾ | 8⅞-9 | 4½-4⅝ | 8⅞-9 | 22-23½ | 24½-25½ | 16⅞-17 | 14⅞-15 | 6¾-7 | 19⅞-20 |
| One Year | 13¾-13⅞ | 14¾-14⅞ | 16⅛-16¼ | 8⅞-9 | 5⅜-5⅝ | 8¾-8⅞ | 19½-20½ | 23½-24½ | 15⅛-16⅛ | 14⅞-14⅞ | 6⅞-7 | 17-17¾ |

SDR linked deposits: one month 13⅛-13⅜ per cent; three months 13⅛-13⅜ per cent; six months 13⅛-13⅜ per cent; one year 12⅞-12⅞ per cent.
ECU linked deposits: one month 14⅛-14⅜ per cent; three months 14⅛-14⅜ per cent; six months 13⅞-14⅛ per cent; one year 13⅛-13⅞ per cent.
Asian $ (closing rates in Singapore): one month 15⅛-15⅜ per cent; three months 14⅞-15⅛ per cent; six months 14⅞-15 per cent; one year 14⅞-15⅛ per cent. Long-term Eurodollar two years 15-15⅛ per cent; three years 15⅛-15⅜ per cent; four years 15⅛-15⅜ per cent; five years 15⅛-15⅜ per cent; nominal closing rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two days' notice.
The following rates were quoted for London dollar certificates of deposit: one month 14.60-14.70 per cent; three months 14.60-14.70 per cent; six months 14.50-14.60 per cent; one year 14.45-14.55 per cent.

### CURRENCIES AND GOLD

## $ and £ weak

STERLING ROSE against the dollar, but lost ground to most other major currencies as nervousness increased about the Falkland Islands situation. The pound's trade-weighted index, according to the Bank of England, fell to 89.6 from 89.9, while sterling rose to $1.7940 from $1.7715 in terms of the dollar.

With sterling and the dollar both out of favour demand increased for the D-mark and the Japanese yen, although lower Swiss interest rates did not encourage buying of the Swiss franc. The pound fell to DM 4.1850 from DM 4.23 against the D-mark; to FFr 10.92 from FFr 11.0450 against the French franc, and to Y423.00 from Y427.50 in terms of the Japanese yen. In contrast sterling rose to SwFr 3.5150 from SwFr 3.4850 against the Swiss franc.

The dollar's index fell to 113.0 from 114.9, influenced by the lower trend in U.S. interest rates. The U.S. currency fell to DM 2.3330 from DM 2.3870, to FFr 6.09 from FFr 6.24, and to Y235.85 from Y241.30.

The major factor in the market, apart from the Falklands crisis, was the weakness of Eurodollar interest rates. But news that Argentina was prepared to comply with the United Nations Security Council mandatory resolution on the Falklands came too late to influence European trading on Friday.

In the European Monetary System the D-mark remained very firm, above its divergence limit, while the Italian lira fell below the Belgian franc at the bottom of the system.

The French franc was around the middle of the EMS, and showed little change overall as Paris interest rates held steady.

Gold rose $9¼ to $362, as the metal reacted nervously to the Falklands dispute and the weakness of the dollar. The metal touched a peak of $364½ on Monday, and was also very firm on Friday, reaching a best level of $363, but here again Argentina's statement about the Falkland Islands came too late to affect the London market. In New York gold futures prices fell by the full $25 daily limit down following the news.

### THE DOLLAR SPOT AND FORWARD

| April 30 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.7875-1.8050 | 1.7935-1.7950 | 0.23-0.33c dis | -1.87 | 0.50-0.60dis | -1.23 |
| Ireland† | 1.4795-1.4875 | 1.4845-1.4875 | 0.56-0.46c pm | 4.12 | 1.75-1.60 pm | 4.51 |
| Canada | 1.2180-1.2290 | 1.2190-1.2195 | 0.05-0.08c dis | -0.64 | 0.21-0.25dis | -0.75 |
| Nethlnd. | 2.5790-2.5915 | 2.5880-2.5915 | 1.45-1.35c pm | 6.49 | 4.10-4.00 pm | 6.25 |
| Belgium | 43.65-44.10 | 43.92-43.94 | 5-8c dis | -1.77 | 19-24 dis | -1.96 |
| Denmark | 7.9170-7.9560 | 7.9225-7.9325 | 2.50-2.75ore dis | -3.97 | 7.75-8.25dis | -4.04 |
| W. Ger. | 2.3240-2.3870 | 2.3325-2.3335 | 1.27-1.17pf pm | 6.27 | 3.57-3.47 pm | 6.03 |
| Portugal | 70.60-71.20 | 70.60-71.00 | 100-300c dis | -33.90 | 200-650dis | -24.01 |
| Spain | 103.40-104 | 103.40-103.60 | 15-25c dis | -2.32 | 60-75 dis | -2.71 |
| Italy | 1,295-1,306½ | 1,298¼-1,299¼ | 10¼-12lire dis | -10.40 | 32-34 dis | -10.17 |
| Norway | 5.9550-5.99 | 5.9575-5.9775 | 2.30-2.70ore dis | -5.02 | 2.65-3.05dis | -5.73 |
| France | 6.0550-6.0925 | 6.0875-6.0925 | 2¾-4¼c dis | -6.90 | 11¾-12¾ dis | -7.88 |
| Sweden | 5.7820-5.8075 | 5.7860-5.7960 | 1.20-1.00ore pm | 2.28 | 3.10-2.90 pm | 2.07 |
| Japan | 232-236.30 | 235.80-235.95 | 1.75-1.65y pm | 8.65 | 4.55-4.45 pm | 7.63 |
| Austria | 16.33-16.435 | 16.33-16.35 | 10½-9⅛gro pm | 7.28 | 26½-23½ pm | 6.18 |
| Switz. | 1.9430-1.96 | 1.9570-1.9580 | 1.90-1.80c pm | 11.34 | 5.17-5.07 pm | 10.46 |

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

### THE POUND SPOT AND FORWARD

| April 30 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| U.S. | 1.7875-1.8050 | 1.7930-1.7950 | 0.23-0.33c dis | -1.87 | 0.50-0.60dis | -1.23 |
| Canada | 2.1780-2.1980 | 2.1835-2.1855 | 0.38-0.48c dis | -2.36 | 1.25-1.35dis | -2.38 |
| Nethlnd. | 4.62-4.66 | 4.63-4.64 | 2¼-1¾c pm | 5.18 | 5⅞-5⅜ pm | 5.07 |
| Belgium | 78.70-79.50 | 78.75-78.85 | 20-30c dis | -3.81 | 55-70 dis | -3.17 |
| Denmark | 14.20-14.32 | 14.26-14.27 | 6¾-7⅞ore dis | -6.18 | 19¼-20½dis | -5.49 |
| Ireland | 1.2080-1.2160 | 1.2100-1.2120 | 0.54-0.66p dis | -5.95 | 1.68-1.84dis | -5.81 |
| W. Ger. | 4.1650-4.2050 | 4.1800-4.1900 | 2-1½pf pm | 5.02 | 5⅛-4⅞ pm | −5.08 |
| Portugal | 126.25-127.75 | 126.50-127.00 | 195-560ore dis | −35.74 | 400-1215dis | −25.48 |
| Spain | 185.10-186.60 | 185.75-185.95 | 50-75c dis | −4.04 | 175-210 dis | −4.14 |
| Italy | 2,317-2,333 | 2,329-2,331 | 22½-25½lire dis | −12.36 | 62-67 dis | −11.07 |
| Norway | 10.69-10.77 | 10.70-10.72 | 7⅞-8¾ore dis | −8.68 | 9¼-10½ dis | −3.69 |
| France | 10.89-10.95 | 10.91-10.93 | 7½-10½c dis | −9.89 | 23-27 dis | −9.16 |
| Sweden | 10.37-10.43 | 10.40-10.42 | ⅞-⅛ore pm | 0.58 | 2-1¼ pm | 0.62 |
| Japan | 420-425 | 422½-423½ | 2½-2¼y pm | 6.74 | 6⅞-6½ pm | 6.21 |
| Austria | 29.30-29.50 | 29.38-29.43 | 15-12gro pm | 5.51 | 38-31 pm | 4.69 |
| Switz. | 3.49-3.52 | 3.51-3.52 | 3⅛-2⅞c pm | 10.24 | 8⅞-7⅞ pm | 9.25 |

Belgian rate is for convertible francs. Financial franc 85.75-85.85.
*Six-month forward dollar 0.90-1.00c dis. 12-month 1.60-1.80c dis.*

### FORWARD RATES AGAINST STERLING

| | Spot | 1 month | 3 month | 6 month | 12 month |
|---|---|---|---|---|---|
| Dollar | 1.7940 | 1.7983 | 1.7995 | 1.8035 | 1.8110 |
| D-Mark | 4.1850 | 4.1675 | 4.1319 | 4.0838 | 3.9955 |
| French Franc | 10.9200 | 11.0100 | 11.17 | 11.3683 | 11.5213 |
| Swiss Franc | 3.5150 | 3.4850 | 3.4338 | 3.3672 | 3.2563 |
| Japanese Yen | 423.0 | 420.6 | 416.2 | 408.8 | 397.2 |

### GOLD MARKETS

| | April 30 | | April 29 | |
|---|---|---|---|---|
| **Gold Bullion (fine ounce)** | | | | |
| Close | $361½-362½ | (£201½-203) | $350-351 | (£195-195½) |
| Opening | $358-359 | (£199½-200) | $351-351½ | (£197-197½) |
| *Morning fixing* | $356.75 | (£198.979) | $352 | (£197.586) |
| Afternoon fixing | $361.25 | (£200.918) | $348.75 | (£194.615) |
| **Gold Coins** | | | | |
| Krugerrand | $367½-369½ | (£205-206) | $360-361 | (£200¼-200¾) |
| *1/2 Krugerrand* | $191½-192½ | (£106¾-107¼) | $185-186 | (£103-103½) |
| 1/4 Krugerrand | $97½-98½ | (£54⅜-54⅞) | $95-96 | (£52¾-53½) |
| 1/10 Krugerrand | $40-41 | (£22¼-22⅞) | $38½-39½ | (£21½-22) |
| Mapleleaf | $367½-369½ | (£205-206) | $360-362 | (£200¼-201½) |
| New Sovereigns | $86-87 | (£48-48½) | $84½-85 | (£47-47¼) |
| King Sovereigns | $98-99 | (£54½-55) | $98-99 | (£54½-55) |
| Victoria Sovs | $98-99 | (£54½-55) | $98-99 | (£54½-55) |
| French 20s | $75-86 | (£41¾-48) | $76½-86½ | (£42½-48) |
| 50 pesos Mexico | $433-434 | (£241½-242) | $430-433¼ | (£239¼-241) |
| 100 Cor. Austria | $341-342 | (£190-190½) | $339-341¼ | (£188½-189¾) |
| $20 Eagles | $440-445 | (£245¼-248) | $440-445 | (£244¾-247½) |

### EMS EUROPEAN CURRENCY UNIT RATES

| | ECU central rates | Currency amounts against ECU April 30 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| Belgian Franc | 44.6963 | 45.0453 | +0.78 | +1.07 | ±1.5440 |
| Danish Krone | 8.18382 | 8.12920 | −0.67 | −0.38 | ±1.6428 |
| German D-Mark | 2.41815 | 2.38307 | −1.45 | −1.16 | ±1.1097 |
| French Franc | 6.19564 | 6.21927 | +0.38 | +0.67 | ±1.3743 |
| Dutch Guilder | 2.67296 | 2.64672 | −0.98 | −0.69 | ±1.5069 |
| Irish Punt | 0.686799 | 0.690006 | +0.47 | +0.76 | ±1.6639 |
| Italian Lira | 1305.13 | 1323.87 | +1.44 | +1.44 | ±4.1242 |

Changes are for ECU, therefore positive change denotes a weak currency. *Adjustment calculated by Financial Times.*

For Sterling/ECU rate see CURRENCY RATES table.

### OTHER CURRENCIES

| April 30 | £ | $ | | £ Note Rates |
|---|---|---|---|---|
| Argentina Peso | 21,535-21,5375† | 11,950-12,000† | Austria | 29.35-29.60 |
| Australia Dollar | 1.6885-1.6895 | 0.9410-0.9420 | Belgium | 86-86 |
| Brazil Cruzeiro | 278.90-279.90 | 154.84-155.61 | Denmark | 14.19-14.33 |
| Finland Markka | 8.1078-8.1394 | 4.5195-4.5370 | France | 10.87-10.97 |
| *Greek Drachma* | *118.659-118.866* | 61.66-65.54 | Germany | 4.15¾-4.19¾ |
| Hong Kong Dollar | 10.41¼-10.44 | 5.8100-5.8150 | Italy | 2290-2330 |
| Iran Rial | 146.40* | 82.00* | Japan | 421-426 |
| Kuwait Dinar (KD) | 0.509-0.515 | 0.2848-0.2900 | Netherlands | 4.63-4.68 |
| Luxembourg Fr | 78.75-78.85 | 43.92-43.94 | Norway | 10.69-10.80 |
| *Malaysia Dollar* | *4.11¼-4.12¾* | *2.2950-2.3000* | Portugal | 125-133 |
| New Zealand Dlr. | 2.3175-2.3215 | 1.2910-1.2930 | Spain | 180½-193 |
| Saudi Arab. Riyal | 6.11-6.17 | 3.4295-3.4315 | Sweden | 10.35-10.46 |
| Singapore Dollar | 3.79¼-3.76¾ | 2.0900-2.1000 | Switzerland | 3.49-3.53 |
| Sth. African Rand | 1.8720-1.8750 | 1.0432-1.0449 | United States | 1.79-1.81 |
| *U.A.E. Dirham* | *6.54-6.60* | *3.6710-3.6740* | Yugoslavia | 91½-99½ |

† Now one rate. * Selling rate.

### CURRENCY MOVEMENTS

| April 30 | Bank of England Index | Morgan Guaranty Changes% |
|---|---|---|
| Sterling | 89.6 | −33.7 |
| U.S. dollar | 113.0 | +5.8 |
| Canadian dollar | 88.1 | −17.8 |
| *Austrian schilling* | *118.2* | *+26.0* |
| Belgian franc | 95.6 | −1.4 |
| Danish kroner | 84.1 | −13.0 |
| Deutsche mark | 124.7 | +48.1 |
| Swiss franc | 147.9 | +97.7 |
| Guilder | 115.5 | +22.1 |
| French franc | 79.6 | −14.8 |
| Lira | 54.0 | −58.4 |
| Yen | 138.5 | +53.1 |

Based on trade weighted changes from Washington agreement December, 1971. Bank of England Index (base average 1975=100).

### CURRENCY RATES

| April 30 | Bank rate % | Special Drawing Rights | European Currency Units |
|---|---|---|---|
| Sterling | — | 0.631630 | 0.570756** |
| U.S. $ | 12 | 1.12967 | 1.02190 |
| Canadian $ | 15.32 | —* | 1.24529 |
| Austria Sch. | 6½ | 18.5435 | 16.7847 |
| Belgian F. | 14 | 49.8184 | 45.0455 |
| Danish Kr. | 11 | 8.97240 | 8.12920 |
| D mark | 7½ | 2.63518 | 2.38307 |
| Guilder | 8 | n.a. | 2.64672 |
| French Fr. | 9½ | 6.87913 | 6.21927 |
| Lira | 19 | 1463.49 | 1323.87 |
| Yen | 5½ | 265.885 | 240.861 |
| Norwgn. Kr. | 9 | 6.76446 | 6.10840 |
| Spanish Pts. | 8 | 116.991 | 105.865 |
| Swedish Kr. | 10 | 6.56564 | 5.93212 |
| Swiss Fr. | 5½ | 2.20907 | 1.99679 |
| Greek Dr'ch. | 20½ | 71.2814 | 64.1471 |

*C$/SDR rate for April 29: N/A

### EXCHANGE CROSS RATES

| April 30 | Pound St'rling | U.S. Dollar | Deutschem'k | Japan'se Yen | French Franc | Swiss Franc | Dutch Guild' | Italian Lira | Canada Dollar | Belgian Franc |
|---|---|---|---|---|---|---|---|---|---|---|
| Pound Sterling | 1 | 1.794 | 4.185 | 423.0 | 10.92 | 3.515 | 4.635 | 2330. | 2.185 | 78.80 |
| U.S. Dollar | 0.557 | 1. | 2.333 | 235.8 | 6.087 | 1.959 | 2.584 | 1299. | 1.218 | 43.92 |
| Deutshemark | 0.239 | 0.439 | 1. | 101.1 | 2.609 | 0.840 | 1.108 | 556.8 | 0.522 | 18.83 |
| Japanese Yen 1,000 | 2.364 | 4.241 | 9.894 | 1000. | 25.82 | 8.310 | 10.96 | 5508. | 5.164 | 186.3 |
| French Franc 10 | 0.916 | 1.643 | 3.832 | 387.4 | 10. | 3.219 | 4.245 | 2134. | 2.000 | 72.16 |
| Swiss Franc | 0.284 | 0.510 | 1.191 | 120.3 | 3.107 | 1. | 1.319 | 662.9 | 0.621 | 22.42 |
| Dutch Guilder | 0.216 | 0.387 | 0.903 | 91.26 | 2.356 | 0.758 | 1. | 502.7 | 0.471 | 17.00 |
| Italian Lira 1,000 | 0.429 | 0.770 | 1.796 | 181.5 | 4.687 | 1.509 | 1.989 | 1000. | 0.938 | 33.82 |
| Canadian Dollar | 0.458 | 0.821 | 1.916 | 193.6 | 4.999 | 1.609 | 2.122 | 1064. | 1. | 36.07 |
| Belgian Franc 100 | 1.269 | 2.277 | 5.311 | 536.2 | 13.86 | 4.461 | 5.882 | 2957. | 2.772 | 100. |

# FT UNIT TRUST INFORMATION SERVICE

## AUTHORISED TRUSTS

[illegible]

### NOTES

[illegible]

# INSURANCE & OVERSEAS MANAGED FUNDS

## INSURANCES

**Abbey Life Assurance Co. Ltd.**
1-3 St. Paul's Churchyard, EC4. 01-248 9111

| | | | | |
|---|---|---|---|---|
| Property Fund | 226.1 | 238.0 | ..... | — |
| Equity Fund | 51.8 | 54.6 | -0.1 | — |
| Property Acc. | 264.8 | 278.8 | ..... | — |
| Equity Acc. | 49.6 | 52.3 | -0.1 | — |
| Selective Fund | 148.2 | 156.0 | -0.3 | — |
| Money Fund | 164.8 | 173.5 | ..... | — |
| Convertible Fund | 176.8 | 186.2 | ..... | — |
| Prop. Fd. Ser. 4 | 208.8 | 219.8 | ..... | — |
| Equity Ser. 4 | 55.4 | 58.4 | -0.2 | — |
| Man. Ser. 4 | 198.1 | 208.6 | ..... | — |
| Money Ser. 4 | 149.6 | 157.5 | ..... | — |
| Conv. Ser. 4 | 149.7 | 157.6 | ..... | — |
| Fixed Int. Fd. Ser. 4 | 114.9 | 121.0 | +0.5 | — |
| American Ser. 4 | 112.8 | 118.8 | -1.7 | — |
| High Inc. Ser. 4 | 116.7 | 122.9 | -0.6 | — |
| Pension Property | 314.7 | 331.3 | ..... | — |
| Pension Equity | 284.6 | 299.7 | ..... | — |
| Pension Selective | 149.1 | 157.0 | -0.2 | — |
| Pension Managed | 291.6 | 307.0 | +0.2 | — |
| Pension Security | 218.2 | 229.7 | ..... | — |
| Pension Fixed Int. | 110.8 | 116.7 | +0.3 | — |

**Albany Life Assurance Co. Ltd.**
31, Old Burlington St., W.1. 01-437 5962

| | | | | |
|---|---|---|---|---|
| Equity Fd. Acc. | 320.2 | 337.0 | +1.4 | — |
| Fixed Int. Acc. | 191.7 | 201.7 | -0.2 | — |
| Gtd. Money Fd. Ac. | 154.6 | 162.7 | ..... | — |
| Intl. Man. Fd. Acm. | 149.4 | 157.3 | -0.4 | — |
| Intl. Fxd. Int. Fd. | 107.8 | 113.5 | ..... | — |
| Prop. Fd. Acc. | 158.3 | 166.7 | ..... | — |
| M'ple Inv. Acc. | 251.6 | 264.7 | +0.3 | — |
| Equity Pen.Fd.Acc. | 439.7 | 462.8 | +2.4 | — |
| Fixed I.Pen.Acc. | 305.0 | 321.0 | -0.6 | — |
| G'td.Mon.Pen.Acc. | 212.6 | 223.8 | ..... | — |
| Intl.Mn.PnFdAcc. | 173.5 | 182.6 | -0.6 | — |
| Prop.Pen.Acc. | 208.2 | 219.1 | ..... | — |
| M'ple Inv.Pen.Acc. | 364.2 | 383.3 | +0.6 | — |

**AMEV Life Assurance Ltd.**
2-6, Prince of Wales Rd., B'mouth. 0202 762122

| | | | | |
|---|---|---|---|---|
| Managed Fd. | 196.1 | 206.6 | ..... | — |
| Money Fd. | 142.2 | 149.7 | ..... | — |
| Equity Fd. | 153.5 | 161.8 | ..... | — |
| Fixed Int. Fd. | 92.6 | 97.6 | ..... | — |
| Property Fd. | 152.2 | 160.4 | ..... | — |
| Managed Pen. Fd. | 170.3 | 179.4 | ..... | — |
| Equity Pension Fd. | 103.7 | 109.3 | ..... | — |
| Fixed Int. Pens. Fd. | 119.8 | 126.2 | ..... | — |
| High Yield Pens. Fd. | 119.7 | 126.1 | ..... | — |
| Money Pension Fd. | 111.2 | 117.1 | ..... | — |

**Crown Life—Continued**

| | | | | |
|---|---|---|---|---|
| St. George Mangd. Fd. | 108.7 | 114.4 | ..... | — |
| Lincs & Gen.Fd. | 117.8 | 124.0 | ..... | — |
| Sage Fd. | 83.6 | 88.0 | ..... | — |
| Heritage Fd. | 95.3 | 100.3 | ..... | — |
| DBS Managed | 100.2 | 125.4 | ..... | — |
| Crown. Brit. Inv. A. | | 217.2 | ..... | — |
| Pens. Mixed Fd. | 146.0 | 151.2 | +0.3 | — |
| Pens. Mang'd. Acc. | 108.9 | 114.6 | +0.2 | — |
| Pens. Mang'd. Init. | 105.8 | 111.3 | +0.2 | — |
| Pens. Equity Acc. | 100.6 | 105.8 | -0.1 | — |
| Pens. Equity Init. | 97.6 | 102.7 | -0.1 | — |
| Pens. Fxd. Int. Acc. | 106.3 | 111.8 | +0.4 | — |
| Pens. Fxd. Int. Init. | 103.2 | 108.6 | +0.5 | — |
| Pens. Money Acc. | 106.9 | 112.5 | +0.1 | — |
| Pens. Money Init. | 104.0 | 109.4 | +0.2 | — |

**Crusader Insurance PLC**
Tower Hse, 38 Trinity Sq, EC3N 4DJ 488 2323

| | | | | |
|---|---|---|---|---|
| Growth Prop April 16 | 104.1 | 114.4 | ..... | — |
| Managed Pens Apr 14 | 112.11 | 118.10 | ..... | — |

**Eagle Star Insur./Midland Assur.**
1, Threadneedle St., EC2. 01-588 1212

| | | | | |
|---|---|---|---|---|
| Eagle/Mid. Units | 75.8 | 78.6 | -0.4 | 6.23 |

**Equity & Law Life Ass. Soc. Ltd.**
Amersham Road, High Wycombe. 0494 33377

| | | | | |
|---|---|---|---|---|
| UK Equities Fund | 183.3 | 192.9 | -2.4 | — |
| Higher Inc. Fund | 118.0 | 124.2 | -1.4 | — |
| Property Fund | 190.2 | 200.2 | ..... | — |
| Fixed Interest Fund | 136.7 | 143.6 | -0.4 | — |
| Index Linked Secs Fnd | 92.5 | 97.3 | +0.1 | — |
| Gtd. Deposit Fund | 133.9 | 140.9 | ..... | — |
| Nth. America Fund | 107.8 | 113.4 | -0.6 | — |
| Far East Fund | 88.7 | 93.3 | +0.3 | — |
| International Fund | 100.7 | 106.4 | -0.4 | — |
| Mixed Fund | 164.6 | 172.6 | -0.8 | — |

**Equity & Law (Managed Funds) Ltd.**
Amersham Road, High Wycombe. 0494 33377

| | | | | |
|---|---|---|---|---|
| Ind. Pen. Equity | 178.5 | 187.8 | ..... | — |
| Ind. Pen. Property | 141.7 | 149.1 | ..... | — |
| Ind. Pen. Fixed Int. | 131.9 | 138.8 | ..... | — |
| Ind. Pen. Indx Lk. Scs. | 103.1 | 108.5 | ..... | — |
| Ind. Pen. Overseas | 146.5 | 154.1 | ..... | — |
| Ind. Pen. Cash | 132.9 | 139.8 | ..... | — |
| Ind. Pen. Balanced | 146.9 | 154.6 | ..... | — |
| Ind. Pen. Dep. Admn. | 132.6 | 139.5 | ..... | — |

Prices at April 15. Next settlement May 12.
Group Pension Funds—Prices Available On Request.

**Family Assurance Society**
68, East Street, Horsham. 0403 50255

## OFFSHORE AND OVERSEAS

### NOTES

# FT SHARE INFORMATION SERVICE

## BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked & Variable Rate

[illegible]

## INT. BANK AND O'SEAS GOVT. STERLING ISSUES

[illegible]

## CORPORATION LOANS

[illegible]

## COMMONWEALTH AND AFRICAN LOANS

[illegible]

## LOANS

Public Board and Ind.

[illegible]

## LOANS—Continued

Financial

[illegible]

Building Societies

[illegible]

## FOREIGN BONDS & RAILS

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## BANKS AND HIRE PURCHASE

[illegible]

## BANKS & H.P.—Cont.

[illegible]

Hire Purchase, etc.

[illegible]

## BEERS, WINES AND SPIRITS

[illegible]

## BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

## CHEMICALS, PLASTICS

[illegible]

## CHEMICALS, PLASTICS—Cont.

[illegible]

## DRAPERY AND STORES

[illegible]

## ELECTRICALS

[illegible]

## ENGINEERING MACHINE TOOLS

[illegible]

## ENGINEERING—Continued

[illegible]

## FOOD, GROCERIES, ETC.

[illegible]

## FOOD, GROCERIES—Cont.

[illegible]

## HOTELS AND CATERERS

[illegible]

## INDUSTRIALS (Miscel.)

[illegible]



مكتبة الأصل

## INDUSTRIALS—Continued

## INSURANCE

## LEISURE

## LEISURE—Continued

## MOTORS, AIRCRAFT TRADES

### Motors and Cycles

### Commercial Vehicles

### Components

### Garages and Distributors

## NEWSPAPERS, PUBLISHERS

## PAPER, PRINTING ADVERTISING

## PROPERTY

## PROPERTY—Continued

## SHIPPING

## SHOES AND LEATHER

## SOUTH AFRICANS

## TEXTILES

## TOBACCOS

## TRUSTS, FINANCE, LAND

### Investment Trusts

## INVESTMENT TRUSTS—Cont.

### Finance, Land, etc.

## OIL AND GAS

## OIL AND GAS—Continued

## OVERSEAS TRADERS

## RUBBERS AND SISALS

## TEAS

### India and Bangladesh

### Sri Lanka

## MINES

### Central Rand

### Eastern Rand

### Far West Rand

### O.F.S.

### Finance

### Diamond and Platinum



## MINES—Continued

### Central African

### Australian

### Tins

### Copper

### Miscellaneous

| Dividends Paid | | Stock | Price | Last xd | Div Net | Cvr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| — | | Anglo-Dominion | 23 | — | — | — | — |
| | May | Burma Mines 10p | 14½xd | 30.4 | 0.55 | ϕ | 5.6 |
| — | | Colby Res. Corp. | 55 | — | — | — | — |
| Aug. | Feb. | Cons. Murch. 10c. | 230 | 23.12 | Q60c | 1.9 | 13.9 |
| — | | Explaura Gold | 6 | — | — | — | — |
| — | | Highwood Res. | 90 | — | — | — | — |
| — | | Northgate C$1 | 210 | 9.77 | — | — | — |
| Jan. | July | R.T.Z. | 448 | 23.11 | 16.0 | 2.1 | 5.2 |
| Jan | July | Do.9½% Cnv.Ln.95-2000 | £101 | 9.11 | Q9½% | 30.8 | 9.7 |
| — | | Sabina Inds. C$1 | 17 | — | — | — | — |
| — | | Southwest C. 10p | 40 | — | — | — | — |
| — | | Tara Exptn. $1 | 340 | — | — | — | — |

## NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- "Tap" Stock.
- Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Dealt in under Rule 163(3).
- Price at time of suspension.
- Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- Not comparable.
- Same interim: reduced final and/or reduced earnings indicated.
- Forecast dividend; cover on earnings updated by latest interim statement.
- Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value
- Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1982. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

## REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

| | | | | IRISH | | |
|---|---|---|---|---|---|---|
| Albany Inv. 20p | 41 | ...... | | | | |
| Bertrams | 17¢ | ...... | | Conv. 9% '80/82 | £96½ | +⅛ |
| Bog'wtr. Est. 50p | 412 | ...... | | Nat. 9¾% 84/89 | £69½ | +⅛ |
| Craig & Rose £1 | £12¾ | ...... | | Fin. 13% 97/02 | £73¾ | +¼ |
| Finlay Pkg. 5p | 29½ | ...... | | Alliance Gas | 70 | ...... |
| Graig Ship. £1 | £25 | ...... | | Arnott | 218 | −10 |
| Higsons Brew | 75 | ...... | | Carroll (P.J.) | 72 | ...... |
| Holt (Jos) 25p | 575 | ...... | | Concrete Prods. | 90 | ...... |
| I.O.M. Stm. £1 | 122 | ...... | | Heiton (Hldgs.) | 19 | ...... |
| Pearce (C. H.) | £11¼ | ...... | | Irish Ropes | 35 | ...... |
| Peel Hldgs. | 145 | ...... | | Jacob | 70 | ...... |
| Sheff. Refrshmt | 75 | ...... | | T.M.G. | 7 | ...... |
| Sindall (Wm.) | 235 | ...... | | Unidare | 43 | ...... |

## OPTIONS

### 3-month Call Rates

| Industrials | | | | | |
|---|---|---|---|---|---|
| Allied-Lyons | 8 | House of Fraser | 15 | Utd. Drapery | 7 |
| BCC Intl. | 15 | I.C.I. | 24 | Vickers | 16 |
| B.S.R. | 8½ | "Imps" | 8 | Woolworths | 5 |
| Babcock | 10 | I.C.L. | 5½ | | |
| Barclays Bank | 42 | Ladbroke | 15 | **Property** | |
| Beecham | 22 | Legal & Gen. | 19 | Brit. Land | 7½ |
| Blue Circle | 48 | Lex Service | 10 | Cap. Counties | 10 |
| Boots | 19 | Lloyds Bank | 42 | Land Secs. | 28 |
| Bowaters | 24 | "Lots" | 6½ | MEPC | 20 |
| Brit. Aerospace | 27 | London Brick | 7 | Peachey | 14 |
| B.A.T. | 38 | Lucas Inds. | 20 | Samuel Props. | 11 |
| Brown (J.) | 7 | "Mams" | 12 | Town & City | 3½ |
| Burton Ord. | 15 | Mrks. & Spncr | 12 | | |
| Cadburys | 9 | Midland Bank | 30 | **Oils** | |
| Courtaulds | 8 | N.E.I. | 9 | Brit. Petroleum | 26 |
| Debenhams | 7 | Nat. West. Bank | 38 | Burmah Oil | 10 |
| Distillers | 15 | P & O Dfd. | 14 | Charterhall | 6 |
| Dunlop | 6½ | Plessey | 32 | KCA | 14 |
| Eagle Star | 31 | Racal Elect. | 38 | Premier | 6 |
| F.N.F.C. | 4 | R.H.M. | 6½ | Shell | 30 |
| Gen. Accident | 33 | Rank Org. Ord. | 20 | Tricentrol | 22 |
| Gen. Electric | 65 | Reed Intnl. | 26 | Ultramar | 38 |
| Glaxo | 42 | Sears | 6 | | |
| Grand Met. | 17 | Tesco | 5½ | **Mines** | |
| G.U.S. 'A' | 45 | Thorn EMI | 42 | Charter Cons. | 25 |
| Guardian | 25 | Trust Houses | 11 | Cons. Gold | 45 |
| G.K.N. | 15 | Tube Invest. | 13 | Lonrho | 7 |
| Hawker Sidd | 30 | Turner & Newall | 11 | Rio T. Zinc | 42 |
| | | Unilever | 55 | | |

"Recent Issues" and "Rights" Page 18

# FINANCIAL TIMES

Tuesday May 4 1982



# Exxon abandons shale oil project

By Paul Betts in New York

EXXON, the world's largest oil company, is abandoning its $5bn Colony oil shale project in Colorado, a venture already under construction, which would have become the biggest and most ambitious attempt to produce synthetic fuels commercially in the U.S.

Exxon's decision, announced over the holiday weekend virtually puts the country's synthetic fuels industry into limbo. Barely two years ago it was being given major support by the U.S. Government.

The withdrawal dramatically reflects the changed economic fortunes of large oil companies and the general change in the world oil market, which is suffering from overcapacity, dwindling demand and falling prices.

Exxon held a 60 per cent interest in the project with Tosco, a Californian refiner, holding the other 40 per cent.

The decision to withdraw came barely 24 hours after the Canadian Government announced it was abandoning its $13.1bn Alsands synthetic fuel project because two of the major participants, Shell Canada and Gulf Canada, both announced they were dropping out of the venture.

Further evidence of the uncertain state of the world energy market and the oil glut came with a recent decision by the large consortium aiming to build the Alaskan gas pipeline to postpone until 1989, construction of the Alaska section.

Exxon said it had decided "reluctantly" to discontinue construction of the Colony plant, which was to produce more than 50,000 barrels a day of synthetic crude oil by 1987, because of current market conditions and sharply escalating costs. It said more than $500m had been spent on the project.

Only a few months ago, Exxon had indicated it would go ahead with the project in spite of the change in the oil market.

Its decision to withdraw thus came as a surprise although oil industry analysts believe Exxon was becoming more and more concerned about the financial health of Tosco, the country's second largest independent refiner of gasoline.

Exxon and Tosco had also recently submitted different estimates of the higher costs involved to compete the ambitious project. Exxon had indicated the project would cost $5bn or more to complete while Tosco said the sum would be about $3.7bn.

For Tosco, the decision is even more traumatic as the refiner had been working on the project for 30 years and had pinned most of its future growth prospects on the venture.

It had also won support from the U.S. government Synthetic Fuels Corporation which had agreed to support Tosco with about $1.1bn in Federal loan guarantees for the Colony venture.

Tosco had sought Federal aid, but Exxon, whose financial position is very strong, had not applied for Federal loan guarantees.

Tosco said it was very disappointed by the Exxon pull-out.

Tosco said the corporation had already provided it with $78m in Federal loan guarantees. It claimed a synthetic fuels industry was vital

Tosco said that under its original agreement with Exxon, the larger oil company would have to buy Tosco's share in the venture for about $380m. Of that, $80m would be used to repay loans from the corporation.

About $120m would be counted as recovery of Tosco's own investment in the project and taxes would account for about $80m. Tosco would thus realise a net of about $100m from the settlement with Exxon.

# Reagan hint on summit talks

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan yesterday indicated he might be willing to meet President Leonid Brezhnev, the Soviet leader, in October.

But officials said it was too early to say whether Mr Reagan would accept Mr Brezhnev's proposal, made on April 17, for a full-scale summit in a neutral European country such as Finland or Switzerland.

Mr Reagan originally suggested a less formal meeting with Mr Brezhnev in New York during this summer's special United Nation's session on disarmament. Mr Reagan said he would address the session after returning from his June trip to Europe, and hoped Mr Brezhnev would too.

Moscow reacted coolly to the proposal, at least partly, it is thought in Washington, because it was seen as a probe of whether Mr Brezhnev would be fit to travel to the U.S.

After Mr Brezhnev countered with his own summit proposal, the White House suggested it might be possible for both meetings to take place.

Mr Reagan has long said he would favour a summit provided it was "well-prepared." This undoubtedly remains an American precondition for a full-scale meeting.

Mr Reagan will not agree to such an encounter—particularly at a time of tension with Moscow over Poland, Afghanistan and other strategic issues—unless he sees a clear chance of success.

It is assumed that strategic arms control would be a major item on the agenda of any Reagan-Brezhnev meeting, and the Administration has said it will soon be ready with a negotiating position for a new round of what it calls strategic arms reduction talks (START).

The U.S. has also come under pressure from its European allies to add strategic arms talks to the separate Geneva negotiations on intermediate range nuclear missiles in Europe. These began at the end of last year.

Pressure on Mr Reagan to agree to meet Mr Brezhnev has intensified with the growing support in the U.S. for an immediate freeze on the superpowers' nuclear weapons.

In an opinion poll published last week, 48 per cent of respondents said they thought Mr Reagan had not done enough to reduce the nuclear arms build-up.

The freeze proposal was supported by a majority of almost three-to-one of those that had heard of it.

Mr Reagan is thought to believe he can defuse some of the anti-nuclear sentiment in the U.S. by meeting Mr Brezhnev. He has already responded by supporting a "long-term freeze" on nuclear weapons—but only after the U.S. had restored the deteriorating strategic balance with the Soviet Union.

The Washington Post yesterday reported that Austria and Ireland were the two most likely countries for an October meeting. Officials here say Mr Brezhnev wants the talks to be held in Europe

# Volkswagen starts talks with Seat on licensing venture

BY KEVIN DONE IN FRANKFURT

VOLKSWAGEN, West Germany's leading car producer, has started formal talks with Seat, the Spanish state-owned car group, with a view to manufacturing 120,000 to 130,000 VWs a year under licence in Spain from 1983-84.

Volkswagen is virtually unrepresented in Spain, West Europe's fifth biggest car market, selling fewer than 3,000 vehicles last year.

The two groups plan the assembly in Spain of the Polo-Derby models, the smallest cars in the range, and the Passat and Santana.

Parts for Spanish assembly would be delivered mainly from West Germany, said Volkswagen, with some from Spanish suppliers.

VW is confident that negotiations with Seat can be completed this summer.

It said vehicles produced in Spain would be aimed mainly at the domestic market. But some Polos would be exported to other European countries, supplementing or replacing supplies from West Germany.

Dr Werner Schmidt, Volkswagen sales director, said the company had no intention of taking an equity stake in Seat. The heavily loss-making Spanish car group has been seeking a strong international partner following the decision by Fiat of Italy to withdraw.

Measures to raise new capital were a matter for INI, the Spanish state holding company which took over control of Seat from Fiat, and not for Volkswagen, said Dr Schmidt. Both companies would remain independent and VW would have no control over Seat's choice of models from other manufacturers.

Seat production is concentrated on two main models, the Fiat Ritmo and the Panda. The Ritmo is a rival to VW's top-selling Golf, and its firm place in the existing Seat range ruled out the Golf from the planned VW/Seat venture.

Dr Schmidt said the link with Seat, which holds about 30 per cent of Spanish car sales, offered VW access to a considerable market share in Spain "without the costly and risky business of winning its own market share and of building its own organisation." Last year, new car registrations in Spain were just under 500,000.

The deal should also open the Spanish market for imports of other models—probably Audis—from VW's West German production. Volkswagen established a wholly-owned importing agency in Spain in May last year.

VW has already chosen the licensing of local manufacture to break into the Japanese market. Nissan is due to start the assembly of the Santana from late-1983, with an initial output of about 60,000 a year.

VW profits slide, Page 22

# Photo card plan aims to curb fraud

By Paul Taylor

BENEFICIAL TRUST, the UK retail banking subsidiary of Beneficial Corporation of the U.S., is to issue its 50,000 account holders with cheque guarantee cards carrying a photograph of the cardholder.

The move is aimed at curbing cheque guarantee card fraud, which is estimated to be costing UK banks £12m a year.

The bank, which has 68 branches, claims to be the first in the UK to issue cheque guarantee cards with photographs of the bearer.

UK clearing banks are examining a number of options to reduce cheque guarantee card fraud, including the use of photographs and redesigning cards to make it more difficult for the cardholder's signature to be erased. Earlier last week, they announced that the use of existing cards overseas will be banned from May 1 next year.

Cheque guarantee cards allow customers to write cheques whose payment is assured by the banks provided certain standard procedures are followed.

Beneficial Trust decided to introduce the photo card throughout its branches following trials involving 3,000 account holders at two of its branches in the Midlands. Every branch will have equipment cost £1,500 to produce the new cards on the spot. The cards will cost the bank about 50 pence each compared with about 10p for a standard plastic cheque card. There will be no charge to customers.

The bank said that although the initial cost was high, the long-term benefits were "well worthwhile." Despite fears expressed by some banks that customers would object to photo cards Beneficial Trust said its tests had revealed no customer resistance and added that many account holders used the cards as identification.

# Treasury pressure on Heseltine

BY ROBIN PAULEY

THE TREASURY has started to exert strong pressure on Mr Michael Heseltine, Environment Secretary, to take action against local authorities which are budgeting to overshoot the Government's spending targets by £1.5bn in 1982-83.

The Treasury has opened what promises to be a long and difficult Cabinet battle by telling Mr Heseltine that the overspend is intolerable, and asking him what he plans to do about it.

The problem has arisen in spite of the Government's agreeing last year to raise the target for council spending this year by £1bn from £17bn to £18bn.

In view of this, the Treasury is exceptionally angry about the size of the overshoot.

Mr Heseltine faces great difficulty about taking action because he has guaranteed a large number of councils immunity from penalties if they are under one of their individual targets.

Mr Heseltine is arguing that breaking the guarantee to underspenders—and making them suffer for the sins of some very high spending by Labour metropolitan counties—would cause political uproar. Most of those worst affected would be Tory councils.

The Treasury's reply is that Mr Hesseltine has only himself to blame because he bowed to pressure to remove clauses (which would have given him selective powers) from the Local Government Finance Bill during the committee stage, even though the Treasury battled hard against such concessions.

Mr Hesseltine can argue that without the change to those clauses the Bill would have fallen because many Tory backbenchers had indicated t hat they would not tolerate powers for selective intervention.

This same argument could finally defeat the Treasury again because there is a strong doubt as to whether across-the-board penalties, with ILEA escaping and prudent Tory councils paying the price, could get through the House of Commons.

The Local Government Finance Bill removes the right of councils to levy supplementary rates. This means that any cuts in grant through penalties could be met only by cuts in staff and services, unless substantial balances were available. Low-spending councils, already pared to the bone, would have to make further service cuts.

The Treasury sees the problems but thinks the onus is on Mr Heseltine to find a way out of the pit which Treasury officials say he has dug for himself.

Both sides are preparing for a long battle.

# Engineering employers fear more conflict

BY PHILIP BASSETT, LABOUR CORRESPONDENT

ENGINEERING employers are bracing themselves for what they fear could be more damaging industrial action over working hours.

Under the 39-hour week agreement which ended strikes in the industry in 1979, claims on hours are frozen until next year.

Mr Terry Duffy, president of the Amalgamated Union of Engineering Workers, however, has already warned the Engineering Employers' Federation (EEF) that next year's claim will again concentrate on shorter hours.

Dr James McFarlane, director-general of the EEF, told the Financial Times industrial relations conference last week that there was a possibilty that the industry may have to face a major challenge next year, "which could have very serious consequences for the whole economy."

Dr McFarlane said: "It seems most likely that the end of this Government's term may be marked—like its beginning—by a major push by unions for significant concessions on working time."

He acknowledged that because of unemployment, the unions were perhaps less well-equipped now to mount such a campaign than they were previously. However, the damage to engineering companies had left them less able to weather conflict than in 1979.

Many of the companies party to the EEF agrement on the 39-hour week have enacted it at little or no cost by altering lunch hours and other breaks. They feel that the effects of another cut in hours could not easily be absorbed in this way.

# Optimism at low rate of public borrowing

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE UNEXPECTEDLY low rate of public borrowing in recent months has greatly eased financial pressure on the Government during the Falklands crisis. It has raised official hopes that interest rates can be reduced when hostilities end.

The Treasury is still trying to find out why borrowing last year undershot the target by £2bn representing almost a quarter of the £8.6bn borrowed.

Although the full reasons for this remain obscure, officials are cautiously optimistic that a number of beneficial effects will carry through into this financial year.

The first such benefit has been that the authorities are relieved of the anxiety of selling a substantial amount of gilt-edged stock while the Falklands Islands dispute has created nervousness in the markets.

This is because the authorities estimate that they may have sold around £1bn more in Government securities last year than proved necessary. The estimate takes account of the growth of money supply, and the high level of bank lending as well as the need to fund public borrowing. It is therefore somewhat imprecise.

The low level of public borrowing has, in addition, raised cautious hopes in the Treasury that the trend may be continuing this year. If that were the case, the Government would have some room to cut interest rates or perhaps reduce taxation later in the year. Of these two possibilities, further downward pressure on interest rates seems more likely.

The reason for optimism about the trend is that the latest estimate suggests the amount of tax delayed from last year to 1982 by the civil servants' strike is some £500,000 more than estimated at the time of the Budget. It is also suggested that the low borrowing figure may indicate that public spending is now under much better control.

However, borrowing figures are notoriously difficult to predict and the Treasury is awaiting firmer evidence, which should be available in the summer, before coming to a more definite view. Yet there is already a feeling in Whitehall that there may be room for manoeuvre.

In spite of the military action in the South Atlantic, there is so far little alarm that the operation will have a serious impact on Government finances. The cost of the operation up to the present is estimated by officials at about £100m. This could probably be met from the contingency reserve.

Last year's reserve of £2.5bn was substantially underspent—by about £1bn—and the reserve for this year is £2.25bn.

While fighting continues around the Falklands, it is unlikely that the authorities will try to reduce interest rates.

In New York yesterday, sterling more than held the 1.8 cents it gained on Friday after rumour that Argentina had agreed to withdraw from the Falklands. At midday the pound was quoted at $1.8150 in New York, indicating the strength of sterling.

## Weather

UK TODAY

SHOWERS, some sun in south. Snow in Scotland.

**London, S, E and NW England, Midlands, Wales and Channel Isles**
Sunny intervals, scattered showers, some blustery. Max 11C (52F).

**NE England, Borders, E Scotland**
Cloudy with prolonged wintry showers.

**Rest of Scotland, N Ireland**
Squally showers. Some snow. Gale-force winds. Cold Max 8C (46F).

**Outlook:** Wintry showers with sunny intervals.

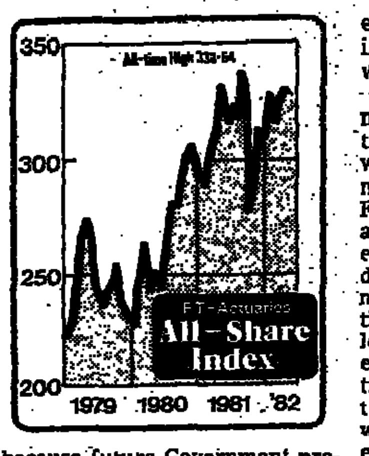
WORLDWIDE

| | | Y'day midday °C | °F | | | Y'day midday °C | °F |
|---|---|---|---|---|---|---|---|
| Ajaccio | S | 17 | 63 | L. Ang.† | C | 16 | 61 |
| Algiers | S | 28 | 82 | Luxmbg. | C | 11 | 52 |
| Amsdm. | F | 10 | 50 | Luxor | | — | — |
| Athens | C | 17 | 63 | Madrid | F | 22 | 72 |
| Bahrain | S | 34 | 93 | Majorca | S | 21 | 70 |
| Barclna. | C | 17 | 63 | Malaga | S | 21 | 70 |
| Beirut | | — | — | Malta | F | 20 | 68 |
| Belfast | C | 8 | 46 | M'chstr. | F | 10 | 50 |
| Belgrd. | S | 20 | 68 | Melbne. | | — | — |
| Berlin | C | 14 | 57 | Mx. C.† | | — | — |
| Biarritz | S | 16 | 61 | Miami† | C | 22 | 72 |
| Bmghm. | F | 10 | 50 | Milan | C | 18 | 64 |
| Blackpl. | F | 9 | 48 | Montrl.† | Cl | 11 | 52 |
| Bordx. | S | 18 | 64 | Moscow | C | 9 | 48 |
| Boulgn. | F | 10 | 50 | Munich | S | 17 | 63 |
| Bristol | S | 10 | 50 | Nairobi | | — | — |
| Brussels | R | 8 | 46 | Naples | S | 17 | 63 |
| Budpst. | S | 17 | 63 | Nassau | | — | — |
| Cairo | S | 27 | 81 | Nwcstl. | S | 8 | 46 |
| Cardiff | S | 10 | 50 | N York† | F | 13 | 55 |
| Cas'b'ca | F | 25 | 77 | Nice | F | 16 | 61 |
| Cape T. | S | 20 | 68 | Nicosia | S | 19 | 66 |
| Chicg.† | Cl | 11 | 52 | Oporto | C | 16 | 61 |
| Cologne | C | 15 | 59 | Oslo | R | 4 | 39 |
| Cpnhgn. | R | 7 | 49 | Paris | C | 15 | 59 |
| Corfu | S | 20 | 68 | Perth | C | 19 | 66 |
| Denver† | Cl | 11 | 52 | Prague | C | 16 | 61 |
| Dublin | C | 9 | 48 | Reykjvk. | F | −4 | 25 |
| Dbrvnk. | S | 19 | 66 | Rhodes | | — | — |
| Ednbgh. | R | 7 | 45 | Rio J'o† | | — | — |
| Faro | C | 21 | 70 | Rome | F | 18 | 64 |
| Florence | F | 21 | 70 | Salzbrg. | S | 17 | 63 |
| Frankft. | C | 15 | 59 | S F'cisc† | | — | — |
| Funchal | F | 21 | 70 | S. Moritz | | — | — |
| Geneva | S | 19 | 66 | Singapr. | | — | — |
| Gibraltar | S | 19 | 66 | S'tiago† | | — | — |
| Glasgow | C | 8 | 46 | Stckhm. | F | 9 | 48 |
| G'rnsey | F | 11 | 52 | Strasbg. | F | 16 | 61 |
| Helsinki | C | 4 | 39 | Sydney | | — | — |
| H Kong | S | 28 | 82 | Tangier | S | 22 | 72 |
| Innsbrk. | S | 17 | 63 | Tel Aviv | S | 20 | 68 |
| Invrnss. | C | 4 | 39 | Tenerife | S | 22 | 72 |
| I.o Man | S | 9 | 48 | Tokyo | C | 25 | 77 |
| Istanbul | S | 17 | 63 | T'ronto† | Cl | 9 | 48 |
| Jersey | F | 12 | 54 | Tunis | S | 19 | 66 |
| Jo'burg | S | 19 | 66 | Valencia | S | 20 | 68 |
| L. Plms. | S | 23 | 73 | Venice | | — | — |
| Lisbon | F | 20 | 68 | Vienna | S | 17 | 63 |
| Locarno | C | 14 | 57 | Warsaw | F | 13 | 55 |
| London | F | 9 | 48 | Zurich | S | 17 | 63 |

C—Cloudy Cl—Clear. F—Fair. R—Rain. S—Sunny.
† Noon GMT temperatures.

THE LEX COLUMN

# Sterling rides the storm




The City closed on Friday believing Argentina to have capitulated in the Falklands dispute. It reopens today after an inappropriately long weekend to find that there is war on, which gives a farcical look to the prices struck in the last half-hour of trading on Friday—three point gains on gilt-edged and a 4 per cent mark-up on leading equities.

Nevertheless, these prices relayed important information: they showed where the market wanted to go. Sterling was remarkably firm in international trading yesterday, which suggests that some proportion of the stock market's advance might be held. At midday in New York the pound was quoted at $1.8150—two cents above the levels ruling in London on Friday just before the markets were misled into fervent hope. Against the D-Mark, it was up from 4.1850 to 4.22.

At the moment, then, there is no pressure on sterling to force higher interest rates in London. The strength of the pound to some extent reflects the considerable international support the British Government has received, and its success in wrenching the initiative away from the Argentines: all very different from the position a month ago. The principal uncertainty for the markets is the standing of the Prime Minister and the Government in general should the British forces suffer a serious setback. Against that, the Government has everything to gain if the operation succeeds.

Apart from the South Atlantic, there was a general heightening of international tension yesterday, from Poland to the Lebanon. But the gold price, at $345 an ounce in Zurich, was roughly halfway between Friday's midday level of $360 and the $330 briefly touched that evening.

## Preserving pensions

A situation dangerously close to stalemate is developing over the question of transferability of pension rights. The Government is still huffing and puffing, with its insistence that those who change jobs must be given a fair deal on pensions. But there is little sign that it will be brave enough to introduce legislation in the foreseeable future.

Calls by the Government for voluntary action by the occupational pensions movement are being received sceptically. The Department of Health and Social Security is itself being accused of dragging its heels. Those pension schemes which would like to improve the position of ex-employees are inhibited from making changes because future Government proposals might be incompatible. In the circumstances a kind of planning blight is affecting the whole area.

It is a subject which is plagued by inappropriate language. The pensions industry likes to talk about "early" leavers, meaning any employee who leaves voluntarily or involuntarily before normal retirement age, as though staying in the same job until 65 were the norm rather than the exception. And the problem is not simply transferability, although something could be done to improve the terms on which actuaries approve transfers from one scheme to another. The key question, rather, is that of the preservation of deferred pensions.

At present the deferred pension entitlement of ex-employees of private sector companies are wide open to erosion by inflation. According to the recent survey by the National Association of Pension Funds less than a fifth of private sector funds give increases in deferred pensions (compared with 85 per cent of public sector schemes).

The Occupational Pensions Board, reporting in June 1981, decided that there was a need for change, but considered that the full cost of preserving deferred benefits in real terms would be too large to be acceptable to companies. Its compromise solution was to suggest a minimum statutory 5 per cent annual increase in deferred pensions, which it costed at an acceptable 1 to 2 per cent of payroll.

Such an unsatisfactory half-way house, pleased nobody. Now the Government is said to be mulling over "alternative approaches" though none of these can amount to an easy option. To insist on proper protection of deferred benefits from some particular day in the future would instantly render many pension schemes insolvent. Cheaper alternatives—such as preserving only pension rights earned in the future, or allowing only partial preservation—would no solve the problem.

The trade unions have not negotiated at all strongly on this subject in the past, but the wave of redundancies has given new urgency to the problem. For a man to lose both his job and a large part of his pension expectations is a double disaster. For this reason there might be some political inclination to treat the voluntary leaver and the redundant employee differently in legislation, on the view that at least the former changes his job with his eyes open. Yet the extra pensions burden would fall very largely upon the weaker industrial companies which have been shedding labour fastest, and would be least able to pay. Many industrial company schemes have only stayed solvent at comparatively low levels of contribution because of the boost given by the forfeiting of the rights of departed employee members.

It is not easy to be selective about pension rights. The OPB pointed out the "knock on" problems in giving protection to deferred pensions on a scale not offered to pensions in payment (only 1 per cent of private sector schemes inflation-proof pensions in payment, against 77 per cent of public sector schemes, according to the NAPF survey). There is concern among the managers of private sector schemes that future improvements in preserved benefits might incur a moral obligation to offer equal treatment to deferred pensioners—at least those who were declared redundant. That might require an expensive round of topping-up of pension funds.

The problems of deferred pensioners are largely caused by inflation, and will be correspondingly reduced if inflation continues to ease. Steadier prices will shift rather than cure the problem for pension schemes: there will be much less scope for cutting the benefits of pensioners in real terms, and the pressure on solvency will increase.

The only healthy way out is for pension schemes to redistribute the benefits fairly, within the context of the contributions that employers and employees are able and willing to provide. It is going to be very hard to propose that loyal, long-serving members should get less. Pension schemes cannot easily shed past commitments. Unless they can achieve a fairer reallocation they will be forced to continue to rob Peter to pay Paul